

FINANCIAL TIMES



Japanese business

Why global ambitions were frustrated

Peter Martin, Page 12



Turkish gold

Investors face fear and xenophobia

Page 26

The Reichmanns

Remarkable talents and frailties

Book review, Page 12



FT auto

Industry on ethical alert

Separate section

Britain accused over abattoir hygiene report

The UK government has been accused of suppressing a report revealing lapses of hygiene in abattoirs, with rules designed to counter the spread of mad cow disease being flouted. The report found that rules designed to counter the spread of BSE - or mad cow disease - to humans were being flouted and warned of "major contamination" of carcasses by animal faeces. The report was due to be made public in March last year. Page 14

Half S. Korean cabinet replaced: South Korean president Kim Young-sam has replaced nearly half his cabinet as part of a shake-up in the wake of the Hanbo loan scandal. Page 6

Clinton pressed over NAFTA: The US Congress is urging President Bill Clinton to renegotiate or withdraw from the North American Free Trade Agreement unless there are improvements in the US-trade balance, with one politician describing it as "one giant broken promise" for most Americans. Page 4

Vital new role likely for Chubais

Russian president Boris Yeltsin is to reaffirm his commitment to further economic reform, amid hints from the Kremlin that chief of staff Anatoly Chubais (left) - seen by international financial institutions as Russia's most effective administrator - would be given a prominent role to streamline the state apparatus and tackle mounting social problems. Page 3

Chrysler has unveiled a campaign to lift sluggish sales of its Neon model in Japan, in a move that highlights the continuing problems there for US carmakers. Page 4; GM plans expansion in former Soviet Union. Page 14

The Palestinian leadership is to reassess Israel's commitment to the peace process following Israeli prime minister Benjamin Netanyahu's decision to build a Jewish settlement in east Jerusalem. Page 4

Credit Suisse, the largest Swiss bank, announced a heavier than expected net loss for 1996 of SFr2.59bn (\$1.7bn), the first in the group's 140-year history. Page 15

S Africa may see mines as jails: Crime in South Africa has become so bad that officials are thinking of shutting the worst offenders in disused mine shafts. Page 4

Nuclear convoy beats protests: A convoy carrying nuclear waste through Germany finally reached its destination after the country's biggest post-war police operation involving more than 30,000 officers. Page 3

Thai bank officials sacked: Thailand's government has sacked three senior bank officials over delays that led to charges being dropped over irrecoverable loans said to be worth up to \$2bn made through Bangkok Bank of Commerce. Page 14

New EU refugee rules planned: People fleeing or fleeing from the world's trouble-spots can expect the same treatment in all 15 European Union member states if plans by the European Commission become law. Page 8

Pakistan debt concerns: Pakistan is facing debt service payments of over \$2bn by June with reserves totalling only \$1bn - enough to finance less than five weeks of imports. Page 6

Corruption under former Philippines' dictator Ferdinand Marcos, swept from power 11 years ago, still overshadows the boardrooms of some of the country's biggest companies. Page 6

Court hits at Societe Generale: A Paris court condemned Societe Generale, one of France's largest banks, for acting unethically in a bid to win business from its rival Credit Lyonnais. Page 15

Bandaid, Japan's largest toymaker, plans a five-fold rise in monthly production of its latest game, a pocket-sized egg with a virtual chicken. Strong demand has meant toys trading on the black market at up to 25 times their recommended price. Page 15

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STOCK MARKET INDICES		GOLD	
New York Composite	5,285.82 (+33.1)	New York Gold	359.01
Dow Jones Ind. Av.	4,265.82 (+33.1)	London	359.01
NASDAQ Composite	1,222.87 (+6.8)	Chicago	359.01
Europe and Far East			
FTSE 100	2,885.16 (+14.5)		
DAX	2,394.90 (+44.3)		
Nikkei	16,273.51 (+21.2)		
US LUNCHTIME RATES		DOLLAR	
Federal Funds	5.25%	New York Gold	359.01
3-month Treasury Bill	5.20%	London	359.01
Long Bond	5.67%		
OTHER RATES		STERLING	
UK 3-month interest	5.25%	New York Gold	359.01
UK 10-year bond	5.25%	London	359.01
France 10-year bond	5.25%		
Germany 10-year bond	5.25%		
Japan 10-year bond	5.25%		
NORTH SEA OIL (August)		STERLING	
Brent Crude	15.17 (15.25)	New York Gold	359.01
Dated Oil	15.17 (15.25)	London	359.01

Cigarette maker is 'willing to listen' to plaintiffs' proposals

BAT seeks deal to end smoking lawsuits

By Ross Tremen and Christopher Brown-Humes in London

BAT Industries, the biggest British-owned cigarette-maker, yesterday called for an industry-wide settlement of legal actions brought on behalf of smokers and former smokers in the US against the tobacco industry.

Mr Martin Broughton, chief executive, said BAT and the US tobacco industry was willing to listen to any "reasonable proposals" from the plaintiffs' lawyers and state attorneys-general who are seeking compensation for smoking-related

\$10bn - figures BAT rejects as excessive.

Although shares in BAT have surged with those of other US tobacco groups, brokers said the market had been demanding a higher dividend yield to compensate for the rising risks of tobacco litigation. BAT's share price fell yesterday by 18p to 531p.

"The ongoing cost in legal terms and the impact on our share price is such that we think it is sensible and appropriate to consider settlement suggestions," Mr Broughton said.

BAT believes both rival US manufacturers and President Bill Clinton are keen to see an end of the 42-year battle over liability for smoking-related illnesses.

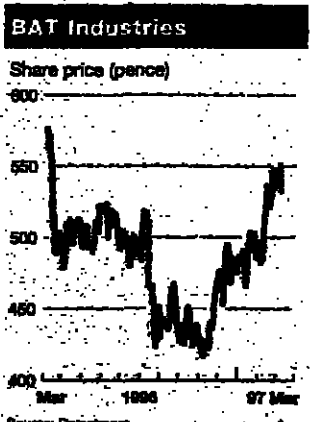
"We understand from third parties that the White House would like a resolution but we haven't heard that from the White House."

Fighting court cases now costs the industry an estimated \$600m a year, a tenth of its annual profits. "I think the whole industry would be prepared to consider sensible proposals," Mr Broughton said. "We would like to see a settlement of the situation in shareholders' interests."

BAT is determined that any US deal will omit any admission of liability, for fear of copy-cat cases in its vast markets in continental Europe and Asia.

The US tobacco industry has faced down more than 535 cases since 1954. Only 19 have come to court and the industry has yet to pay out a penny in damages. But a new wave of litigation is gathering this year, with 19 cases set down for trial.

Lord Cairns, BAT's chairman, said the US tobacco industry "remains confident of



diseases. The company yesterday revealed that its US subsidiary, Brown & Williamson Tobacco, spent \$100m last year defending legal claims, up from \$60m in 1995. The company has spent \$250m so far. "I can't see the cost going down," Mr Broughton said. BAT has made no provisions against losing cases.

Mr Broughton's call for a deal, which overshadowed yesterday's year-end financial results, reversed BAT's previous insistence that it would never settle. BAT has a 16.6 per cent share of the cigarette market in the US, where claims by former smokers are estimated to total \$6bn to

Continued on Page 14
US charge curbs BAT, Page 21; Lex, Page 21



Swiss president Arnold Koller in parliament yesterday where he announced that his government would set up a SFr7bn (\$4.7bn) fund to help victims of the Holocaust. Switzerland will revalue its gold reserves and use much of the profits to pay for the fund. Report, Page 2

Renault sparks Brussels move on worker rights

By Neil Buckley in Brussels and David Owen in Paris

The European Commission is to press for tougher worker protection laws in the light of French carmaker Renault's controversial decision to close a profitable factory in Belgium with the loss of 3,100 jobs.

Protests grew yesterday with a rare personal intervention by the Belgian king, and the first public criticism by French President Jacques Chirac and Prime Minister Alain Juppé of Renault's handling of the closure, which has provoked demonstrations in Belgium.

European Union commissioners last night instructed Mr Padraig Flynn, social affairs commissioner, to examine whether EU laws on worker consultation needed to be strengthened, and to produce recommendations on strengthening workers' rights. Mr Flynn is expected to hold a press conference today.

The Commission's action could antagonise the UK, which opposes further EU legislation in social matters. But it reflects concern about a popular backlash over the effects of EU policies after Renault's decision, which Mr Jacques Santer, Commission president, has called a "grave blow to confidence in Europe".

Belgian job losses bring EU law review

The Commission last night issued an unprecedented opinion that Renault had failed to respect two EU directives on works councils and collective redundancies by failing to warn workers at Vilvoorde before the announcement.

"From our point of view it is absolutely clear there is a problem here," the Commission's spokesman said. King Albert II of Belgium summoned Mr Juppé with the commissioners by voicing "serious concern" over the closure. Mr Flynn told him the Commission could not take legal action against any individual or company. Such cases can only be brought in national courts.

But the Commission's opinion will be an encouragement to Belgium, which is planning action against Renault, and could be cited in any national case. Renault could be fined BF20m (\$567,000) under Belgian law if it were found to have breached the rules.

Mr Santer also came under pressure from Mr Jean-Luc Dehaene, Belgian prime minister - who lives in Vilvoorde - to strengthen social laws.

Separately, a Belgian federal ministry confirmed it had cancelled an order for 150 Renault vehicles. Belgian newspapers have called for a consumer boycott against Renault.

In Paris, Mr Chirac let it be known he was "shocked" by the way the closure had been announced, and Mr Juppé summoned Mr Louis Schweitzer, Renault chairman, and another executive and demanded they begin consultations with interested parties, including the Belgian government, "without delay".

He underlined the "human dimension" that needed to be taken into account "beyond the industrial logic".

Continued on Page 14
Unlikely to rock markets, Page 8; Plan avoids many of the risks, Page 13; Editorial Comment, Page 13; Lex, Page 14

UK plans radical scheme to privatise pensions

By Nicholas Timmins in London

The UK government yesterday proposed privatisation of state pensions for the next generation of employees in the biggest change to Britain's modern welfare state since its foundation in 1945.

Under the proposals, which would require decades to take effect, the UK would become the first member of the Organisation for Economic Co-operation and Development to switch pension provision almost entirely to the private sector.

The government said it planned to pay rebates from pensions contributions to new entrants to the workforce. These would be invested in privately run funds to provide both the equivalent of the basic state pension and an earnings-related top-up.

For that generation, the scheme would replace both the flat rate basic state pension, funded from national insurance contributions, and an earnings-related top-up also financed on a pay-as-you-go basis since the late 1970s.

The top-up now chiefly covers the lower paid because two-thirds of employees have taken incentives introduced in the late 1980s to opt out of the earnings-related pension in favour of private provision.

Despite the scale of that change, the switch to private funding of even the basic state pension would mark a decisive break with the UK's pay-as-you-go approach to pensions, which still accounts for most pension provision.

The scheme, announced just weeks before a general election, comes with a guarantee that if low earnings or a fund's failure to perform lead to a final pension below what the basic state pension would have been, the pay-out would be topped up to that level.

The opposition Labour party

GEC-Marconi plans joint projects with Finmeccanica

By Bernard Gray in London and Robert Graham in Rome

GEC-Marconi, the defence arm of the UK's General Electric Company, and Finmeccanica, the Italian engineering group, are to form a series of joint ventures that will accelerate the consolidation of the European defence industry.

The two companies will study how best to link their defence interests over the next three months, with a number of joint ventures in different areas the most likely outcome.

Turnover of the combined businesses could reach £1bn (\$1.5bn), and is likely to cover areas such as avionics for the four-engine Eurofighter, naval electronics, radar, missile seekers, torpedoes and air traffic control equipment.

The alliance draws the companies together as the Italian government considers how best to sell its majority stake in Finmeccanica, raising the prospect that GEC could take a stake in the Italian company. The move also indicates that

European defence electronics companies are not prepared to wait for the French government to decide what to do with the Thomson-CSF defence electronics company before reaching alternative deals.

Italy is thought to have decided that its defence industry is not large enough to prosper without international alliances, given the pace of consolidation of US arms manufacturers.

Finmeccanica, 62 per cent owned by Iri, Italy's state holding company, accounts for 70 per cent of the Italian defence business. Its defence interests are grouped under Alenia Difesa, which had sales of £2.35bn (\$3.6bn) in 1996 in five divisions - radar, missiles, naval systems, armaments and avionics.

GEC has courted Thomson-CSF and the French government, but has also explored other options, including alliances with Finmeccanica, British Aerospace and US aerospace companies. Both Finmeccanica and GEC-Mar-

coni have links with French industry but are thought to have become frustrated at the slow pace of nationalisation in France, and the apparent intention of the government to exclude international partners from the Thomson privatisation.

Over the next few months, GEC-Marconi and Finmeccanica will pool details of their businesses, with the intention of forming a number of joint ventures; some, such as air traffic control, are likely to have a majority of assets provided by Finmeccanica, while others will be led by GEC.

"The GEC-Finmeccanica agreement marks an important new phase in Italy's defence industry," Mr Fabrizio Fabiani, chairman, said yesterday. He had first broached the idea with former GEC head Lord Weinstock but talks began in earnest last November with Mr George Simpson, new GEC chief executive.

Lex, Page 14; Thomson-CSF back in black, Page 16

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NEWS: ASIA-PACIFIC

Economic ministers appointed in South Korean government reshuffle

Kim replaces nearly half his cabinet

By John Burton in Seoul

Mr Kim Young-sam, the South Korean president, yesterday replaced nearly half his 23-member cabinet, including the main economic ministers, as part of a government shake-up in response to the Hanbo loan scandal.

The reshuffle has provoked criticism that the frequent change of ministers during Mr Kim's administration has led to inconsistent policies that have harmed economic performance.

Mr Kang Kyung-shik, a govern-

ing party MP, will become the sixth finance minister to serve under Mr Kim since the president took office in February 1993. The average term of ministers in this post is less than 10 months.

Those replaced yesterday were not directly implicated in the scandal. But most of their departments either approved the bankrupt Hanbo Steel project or conducted a probe, criticised for being inadequate, of allegations that officials were bribed to force banks to make loans to Hanbo.

The ministries involved in the

reshuffle included home affairs, justice, trade and industry, construction and transport, science and technology, culture and sports, the fair trade commission, and patriots and veterans affairs.

The reshuffle follows the appointment of Mr Koh Kum as the new prime minister and the replacement of top presidential aides, including the economic adviser.

Mr Kang had a long career in state economic posts, including serving as finance minister in 1982, before becoming a governing party

MP. He is a close political ally of Mr Kim since he represents a district in the port city of Pusan, the president's political stronghold, and has advised him on economic affairs.

Considered a supporter of reform and market opening in an economy that is still strongly influenced by state intervention, Mr Kang is expected to play a crucial role in the new prime minister's programme to ease or eliminate some of the 11,000 administrative regulations. They have been blamed for harming economic competitiveness

and fostering official corruption.

Mr Lim Chang-yuel, the vice finance minister, was appointed to head the trade and industry ministry, and Mr Kang Oon-tae, a former agriculture minister, became the nation's second home affairs minister in three weeks.

The head of the patriots and veterans affairs ministry is believed to have been dismissed because of his close ties with the president's son, Mr Kim Hyun-chul, who has been suspected of being involved in the Hanbo scandal although officially cleared of any wrongdoing.

ASIA-PACIFIC NEWS DIGEST

HK mint stake sold to China

An arm of China's central bank is to take a stake in a money printing plant in Hong Kong, another example of mainland companies taking stakes in key commercial groups in the territory. China Banknote Printing and Minting Corporation (CBPMC), a subsidiary of People's Bank of China, which prints and mints the Chinese yuan, has agreed to pay HK\$42.5m (US\$5.5m) for 15 per cent of Hong Kong Note Printing Limited (HKNPL).

HKNPL has been wholly owned by the Hong Kong government through the Exchange Fund, the territory's treasury chest, since April last year. The acquisition was welcomed by both Mr Donald Tsang, Hong Kong's financial secretary, and Mr Joseph Yam, chief executive of the Hong Kong Monetary Authority, the de facto central bank.

In May 1994 Bank of China became the territory's third note-issuing bank alongside Hongkong and Shanghai Bank and Standard Chartered. *Louise Lucas, Hong Kong*

Vietnamese fine for investor

The authorities in Ho Chi Minh City have recommended fining the Vietnam-based unit of Hong Kong's Peregrine Investments Holdings \$100,000 for alleged abuse of business licences. Peregrine Capital Vietnam (PCV) was one of the first investors in the country when it opened up to foreign capital in the early 1990s.

City officials say PCV had been operating a representative office at a site without a "location permit". They have recommended the Hanoi-based ministry of trade - which licenses such offices - fine PCV for failing to have the permit. Five affiliates of PCV were also recommended to be fined \$10,000 each.

PCV is 40 per cent held by Mr Nguyen Trung Truc, an Australian businessman of Vietnamese origin, and his Malaysian wife and the rest by Hong Kong-based Peregrine Investments Holdings. *Jeremy Grant, Hanoi*

Six in Australian airport bids

A shortlist of six consortia have been invited to submit revised offers for the Melbourne, Brisbane and Perth airports by mid-April, as part of an A\$2bn (US\$1.5bn) airports privatisation programme.

Nine consortia - most made up of both international and domestic players - put in a total of 18 bids in the first round of bidding, which closed on January 30. The government has said it intends to sell all 22 airports run by the Federal Airports Corporation but has started by offering long-term leases on these three only. It hopes to complete the sales by end-June. *Nikki Tait, Sydney*

Taiwan to lift futures ban

Taiwan plans to lift a ban on local trading of Taiwan stock index futures listed offshore in a liberalisation measure welcomed by Taiwan investors. Mr Paul Chiu, central bank governor, also said yesterday that the Taiwan stock exchange would launch share warrants for the first time. Both moves will be approved in April. The announcement follows the passage on Tuesday of laws paving the way for establishment of a domestic futures exchange. *Laura Tyson, Taipei*

Philippine inflation fell to 4.4 per cent in February, against 5 per cent in the previous month, after another sharp fall in the price of rice. *Justin Marozzi, Manila*

Marcos skeletons rattle in boardrooms

Justin Marozzi on uphill attempts to recover assets acquired under the Philippines dictator

Even years and two presidents after a "people power" revolution swept Philippines dictator Ferdinand Marcos out of office, the corruption of his era still overshadows the boardrooms of some of the country's biggest companies.

Within three days of the revolution, President Corason Aquino established the Presidential Commission on Good Government (PCGG) to recover ill-gotten assets accumulated during the Marcos years. It was empowered to sequester these assets and begin legal proceedings to prove their illegitimate origin. But the PCGG's efforts, which include placing directors on company boards, have run into an embarrassing stalemate.

Attempts to unravel the rampant cronyism, under which the late Mr Marcos distributed large chunks of the economy to his friends and allies, have all but foundered in an interminable mass of legal disputes and diversionary tactics in response to more than 500 PCGG writs. One leading Philippine business dynasty associated with Marcos, the Cojuangco family, has had writs served on more than 250 of its companies.

While legal cases proceed at a snail's pace, the PCGG

has what many regard as a detrimental influence on company boards. These include some big listed groups such as Philippine Long Distance Telephone Company (PLDT), the telecommunications company also listed in New York, San Miguel, the country's largest beer and food company, and PCIBank, beset by internal disputes over share ownership.

Many analysts believe that San Miguel has been hampered in efforts to raise capital by the majority of PCGG directors on its 15-strong board. San Miguel maintains silence but there is evidence elsewhere that the PCGG's conservative and passive role is hampering efforts by corporate managements to profit from the Philippines' economic deregulation.

In another ownership dispute, Puerto Azul, a property company, had its attempts to list on the Manila exchange frustrated after a fight between the Marcos family, the stock exchange, the PCGG and the Securities and Exchange Commission.

But Mr Magtanggol Gumigundo, chairman of the PCGG, brushes aside criticism. "We don't meddle with management. If you really need to increase capital and it will redound to the interests of the company and will benefit the government



Ferdinand and Imelda Marcos: a lingering effect

stake, we will not be a hindrance." He points to the commercial success of the PLDT with the commission on board. He also says groups such as Traders Royal Bank and United Coconut Planters Bank have benefited from the commission's choice of directors.

Mr Gumigundo says the

commission has been out-gunned. "You're up against the big families under the Marcoses and their cronies. They used dummies, fronts, layers of corporations here and abroad to conceal their assets."

The PCGG should have been given more teeth from the start, he says. "I would

have declared the assets illegotten and given the burden of proof to the cronies to prove they were lawfully acquired or otherwise declared forfeited and confiscated. That would have changed everything and I would have finished the work in a year."

At the heart of the problem, say observers, lies a painfully slow legal system open to outside influence. Mr Deodoro Locsin, a newspaper columnist and PCGG director on the San Miguel board, says political considerations may weigh too heavily with the courts in certain PCGG cases. If a crony is judged to be in favour with the government, the court is more likely to rule against the commission, he says.

Mr Alex Magno, professor of politics at the University of the Philippines, describes the country's judiciary as "strong, capricious and corrupt". He is pessimistic. "The PCGG was doomed from the start. It could not confiscate outright. Everything had to go through the courts. It also has the worst lawyers because they're on government pay. If you're a lawyer you have to be desperate to get a job there."

PCGG successes are few and far between but some individuals have voluntarily turned over gains from the Marcos era. One of them, Mr

Jose Yao Campos, surrendered assets from which the government has so far realised 31m pesos (\$1.2m).

Because of a long legal battle, the Philippines has yet to recover any of the \$500m which it claims is held in Marcos bank accounts in Switzerland. A series of court appeals has followed a Swiss tribunal ruling in 1990 upholding the PCGG's right to freeze the Marcos bank accounts.

Some would argue Filipinos are too willing to forgive and forget. The PCGG has failed conspicuously in its attempts to implement a single writ of sequestration on the Chinese-Filipino businessman Mr Lucio Tan. Worth an estimated \$8bn, with an empire of unlisted companies dating back to the Marcos years, Mr Tan is perhaps the richest man in the Philippines. Many claim he owes his wealth to close ties with Marcos.

Mrs Imelda Marcos, supposedly the real power behind her husband's throne, is now a congresswoman living in the most exclusive condominium block in Manila. There is little prospect of a speedy resolution to the PCGG cases. Mr Gumigundo says: "The ghost of Marcos still haunts this country - and it's definitely not a friendly one."

Australian economic growth rate falls below 3.5% forecast

By Nikki Tait in Sydney

Australia's economic growth rate fell to 3.1 per cent, year-on-year, in the last quarter of 1996, but Mr Peter Costello, federal treasurer, insisted the government was on track to meet its target of 3.5 per cent growth forecast for the 1996-97 financial year, which ends in June.

The Liberal-National coalition government has recently taken heart from an apparent upturn in economic activity in the past two months - probably a delayed reaction to three official interest rate cuts in the second half of 1996. Data for January's retail sales and building approvals, published earlier this week, showed signs of consumer confidence returning.

"I think all would agree that the economy has been strengthening in 1997 and we'd be looking forward to strong growth, which I think does make those targets achievable," Mr Costello said yesterday.

The figure reflected



growth of just 0.5 per cent, seasonally adjusted, in 1996's final quarter, down from a revised 0.6 per cent in the September quarter.

Although some slowdown had been expected, this was weaker than most analysts had forecast. Predictions for the year-on-year growth rate in the December quarter had stood at around 3.5 per cent.

The growth rate has now

fallen from over 4 per cent in the first part of 1996. Private consumption was particularly weak, rising by only 2.3 per cent in 1996 overall, the lowest year-on-year increase for almost three years. By contrast, business sector investment increased by 2.1 per cent.

The "two-tier" nature of the Australian economy in 1996 was also confirmed by yesterday's data, with the mining, communications and

agricultural sectors continuing to grow fairly strongly, while manufacturing output fell 2.6 per cent.

The Labor opposition pointed out that the Australian economy had probably fallen to an annualised growth rate of little more than 2 per cent in the second half of 1996, and would need to rebound very strongly to meet the 3.5 per cent target.

"Even if the economy is picking up, which we all hope very much it is, I don't think anyone believes that that kind of surge is now possible," said Mr Gareth Evans, shadow treasurer.

Mr Evans warned that if the growth forecast was missed, the government's efforts to pare the federal budget deficit could be jeopardised (as revenues would be depressed). The government originally forecast a A\$5.65bn (US\$4.4bn) deficit for 1996-97 in its budget last August, but has since been obliged to revise this to A\$8.48bn, largely because of an expected shortfall in corporate tax revenues.

Pakistan debt concern revives

By Farhan Bokhari in Islamabad

An International Monetary Fund mission has arrived in Pakistan amid fresh concern over the country's relations with its creditors and its ability to meet targets set by the Washington-based organisation.

At stake in the short-run is disbursement in April of the next tranche of \$12m as part of Pakistan's \$831m standby loan agreement with the IMF. Bankers say without this money Pakistan could face a loss of confidence, exacerbating difficulties meeting service payments on its \$30bn foreign debt.

Pakistan faces service payments of over \$2bn by June, but reserves total only \$1bn - enough to finance less than five weeks of imports. The trade deficit is expected

to reach \$3.5bn when the financial year ends in June.

Officials insist reform proposals promising to encourage new investments, attract foreign exchange deposits at local banks and revamp the tax system, outlined by Prime Minister Nawaz Sharif's month-old government, will satisfy the IMF for the time being.

But private sector economists say there is concern over the budget deficit. This is unlikely to be reduced to 4 per cent of gross domestic product, from 6.3 per cent last year, because of poor tax revenues. Trimming the deficit is a central condition for continued IMF co-operation. Failure to meet the targets under the standby credit could prevent Pakistan winning a larger credit under the IMF's structural adjustment facility, on which the new government is counting.

Camdessus urges reforms on India

By Mark Nicholson in New Delhi

India must further tighten its fiscal discipline and embark with "boldness" on a "second wave" of structural reforms if it is to emulate its faster-growing south-east Asian neighbours, Mr Michel Camdessus, managing director of the International Monetary Fund, said yesterday.

He said the recent slowdown in industrial output and export growth suggested the effect of the first wave of structural reform measures might be "losing its momentum".

He urged India's government to build on the past five years of reforms and "try to do the other half of the journey towards catching up the performance of the Asian tigers".

After a four-day visit to India Mr Camdessus praised

the fiscal tightening and tax-cutting budget last week by Mr P. Chidambaram, finance minister, but called it only a "determined start" in tackling India's gross public sector deficit.

He suggested Mr Chidambaram's projection of tax revenue buoyancy resulting from sharp cuts in personal and corporate tax might be "optimistic". There was a danger lower taxes might result in a revenue shortfall.

Mr Camdessus urged the government to move more aggressively to speed up privatisation and encourage public sector reform through greater competition, while further reforming labour and companies law.

He also said India should and could "within months" begin taking the first "deliberate" and "decisive" steps towards full capital account convertibility.

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NEWS: THE AMERICAS

Republicans step up pressure on Clinton

Prosecutor urged for funds probe

By Gerard Baker
in Washington

Leading Republicans yesterday intensified their efforts to force the appointment of an independent prosecutor to investigate the Democratic party's fundraising activities in last year's election campaign.

Sen Trent Lott, the Senate majority leader, proposed a resolution that called upon Ms Janet Reno, attorney general, to appoint a special counsel to look into the growing allegations of improper behaviour by leading Democrats up to and including President Bill Clinton and Vice President Al Gore.

Sen Lott said any investigation should be focused narrowly on activities in the presidential campaign last year, and rejected calls for some in Congress that the range of the inquiry should be broadened to include allegations of corrupt practices by many senators and congressmen themselves.

The president and vice president have been besieged for months by multiplying allegations of impropriety in the way their re-election campaign team solicited funds from contributors.

The allegations include claims that the Democrats in effect sold special access to the president to a number of supporters willing to pay large enough sums of money. It has also been alleged that the party received substantial funds from groups of mostly Asian-American businessmen in exchange for subtle changes in administration policy.

The president has come under heavy fire in the last few weeks after he admitted holding a long series of White House office sessions with big contributors, and for developing a variety of creative means of giving others access to him. Some contributors were invited to go jogging with the president, while others, who had paid rather more, were permitted to stay at the White House as overnight guests of Mr Clinton's.

On Monday, Mr Gore was thrust into the spotlight when he acknowledged that he had made telephone calls from the White House to potential donors to the Democratic party. The use of government property for the solicitation of political campaign funds is expressly forbidden by law.

Last December Ms Reno rejected a call by Senate Republicans to appoint an independent counsel, saying that the allegations of wrongdoing could be investigated by the Justice Department through normal investigative routes. But the revelations in recent weeks of the roles played by both the president and the vice president themselves may force a change. Two Democratic senators have now added their voices to the calls for an independent counsel.

A formal request from the congress for such a prosecutor is likely to be made within the next few weeks. In the meantime an investigation by a Senate committee headed by Sen Fred Thompson is under way and is expected to begin hearings within the next few weeks.



Lott: proposed resolution



Reno: rejected call

Opic comes under ideological fire

It makes a regular profit for the US Treasury but conservatives and consumer advocates have it on a hit list of 'welfare' programmes, reports Mark Suzman

It uses no public money; it makes a steady profit for the Treasury and it has a 25-year track record in boosting exports and creating new jobs. But the Overseas Private Investment Corporation is facing destruction by its enemies in Congress.

Less than six months ago, Opic, a government-owned agency which extends loan guarantees and political risk insurance for US businesses in emerging markets, was trumpeting its achievements. After a record year in which it supported 169 projects generating \$9.6bn in US exports, the administration was confident of getting Congress to extend Opic's authorisation for five years, and even sought to double the statutory ceiling on its total exposure to \$45bn.

But after a surprise defeat of those proposals last September, Opic's fortunes have taken a sharp turn for the worse. First it received only a temporary one-year re-authorisation; then Mrs Ruth Harkin, its president, announced that she would step down at the end of this month; and now the organisation finds itself fighting

not just for a renewal of its mandate, but for its very survival.

Opic has become a prime target for an unlikely coalition of conservatives and consumer interest advocates committed to reducing government involvement in business. Led by Mr John Kasich, the Republican head of the House budget committee, they have put Opic high on the hit-list of a "dirty dozen" federal programmes accused of providing "welfare" - unnecessary government subsidies that distort investment decisions - for big corporations.

"It's seen as a matter of fairness," says Mr Jim Sheehan, a research associate at the Competitive Enterprise Institute, a free enterprise think-tank. "Congress has set domestic limits on welfare for legal immigrants and other groups and it's seen as inappropriate for large, profitable corporations to continue receiving their own benefits from organisations like Opic."

That belief has led Mr Kasich and other congressmen to demand Opic be required to cease any new government-guaranteed business

and be left merely to manage its existing portfolio. Mr Trent Lott, the Senate majority leader, has similarly singled out the agency as one "in danger of being changed, phased out or eliminated", during the current congressional session.

Adding to Opic's woes is growing concern about the security of some of its loans, particularly to the former Soviet Union. In 1992 and 1994, the administration had little difficulty in getting congressional approval for expanding Opic's activities, and over that period outstanding commitments to Russia and a range of new equity investment funds rose sharply. However, critics say many of these transactions have been driven by foreign policy needs and make little business sense.

As a result, although the default rate for Opic investments is historically very low - around 1.3 per cent - there are fears that the government is now over-exposed.

Some of the more fiery rhetoric has suggested a string of defaults could result in an international

equivalent of the savings and loan crisis, when the state paid billions to bail out domestic lenders in the late 1980s.

But while even supporters admit Opic's activities have become more politically driven under the Clinton administration, it is still unclear if there is any serious risk to taxpayers. In its defence, the agency points out that it has built up reserves of \$2.7bn and last year continued its unbroken record of being a net contributor to the Treasury, making a profit of over \$200m.

Meanwhile, the anti-Opic onslaught has spurred a belated response from business and international affairs groups, anxious both to highlight the agency's critical role in promoting important international investments and to head off attacks on other, similar agencies such as the US Export-Import Bank.

"These are very important markets and without Opic American companies would not be able to invest," insists Mr Edmund Rice, executive director of the Coalition for Employment through Exports, a group of leading

US exporters. "Not only does it create jobs in the US, it helps maintain a US business presence in markets that would otherwise be taken by competitors."

Nevertheless, although the administration has rejected plans to merge Opic with the Eximbank and the Trade Development Agency, a smaller organisation that does similar work, it recognises that the strength of the current opposition makes a resurrection of last year's failed proposals impossible. Instead, it is expected to offer some form of compromise, perhaps seeking re-authorisation for only two years with the promise of extra scrutiny to ensure US jobs are not threatened.

Even that, however, may not be enough to win over a Congress that seems increasingly predisposed to reject the administration's argument that Opic has much more to do with jobs and exports than corporate welfare. "Last year's vote was a clear signal," says one congressional official. "Opic is one of the programmes where we're finding it quite easy to generate support for proposals to get rid of it."

AMERICAN NEWS DIGEST

Steady growth in US aviation

US commercial aviation will see steady growth in the next several years, Federal Aviation Administration analysts predicted yesterday at their annual aviation forecast conference.

Domestic air travel will increase by 4.3 per cent this year and passenger growth is expected to average increases of 3.9 per cent to 2008, said Mr John Rogers, director of the FAA Office of Aviation Policy and Plans. The current strong US economy is a factor in increasing air travel, he said at a pre-conference briefing.

In addition, the growing number of older people helps boost air travel, since they tend to favour flying on vacations and to visit relatives and are relatively well off. Fiscal 1997 will be the third consecutive year in which the nation's airlines have posted growth and profitability, said Ms Louise Mallett of the FAA.

Airlines had total operating profits in 1996 of \$6bn and a net profit of \$2.7bn, she said. At the same time they had an increase in passenger load of 30m. AP, Washington

Clinton seeks gun curb

President Bill Clinton yesterday joined a campaign for tighter regulations on gun sales to foreigners in the US.

Mr Clinton urged the passage of a Senate bill making it illegal for non-immigrant foreigners to carry or buy firearms. He also announced new proof-of-residency requirements for legal aliens buying guns under the current law.

Mr Clinton said his initiative was prompted by last month's attack on tourists at the Empire State Building in New York City by a Palestinian teacher. The man had been living in a Florida motel for three weeks on a tourist visa before buying a gun there. AP, Washington

Bankruptcies pass 1m mark

For the first time, the number of Americans filing personal bankruptcies last year topped 1m. The increase has intensified criticism that consumers are taking court protection from creditors too lightly.

There were 1,242,700 bankruptcy filings last year, according to a survey of every US bankruptcy jurisdiction by CDB Infotek, a Santa Ana public records research firm. It was up 38 per cent from 918,964 in 1995.

A fraction of those filings were commercial liquidations, typically small businesses, CDB found. The rest were personal bankruptcies. Most were personal property liquidations or Chapter 13 filings, which provide a shield while debtors and creditors work out repayment plans from available income.

Visa USA, whose members lose billions of dollars a year to bankruptcy filings, also checks the bankruptcy courts. The credit card company's studies showed consumer bankruptcies rose 26.6 per cent, from 853,000 in 1995 to 1,117,000 last year, said Mr Kenneth Krone, senior vice-president of Visa USA. AP, Los Angeles

Impressionists for auction

One of the most important collections of Impressionist, and post-Impressionist art to reach the market for many years comes under the hammer at Christie's New York on May 12. The collection, which includes works by Cézanne, Manet and Toulouse-Lautrec, is estimated at upwards of \$90m.

It was formed around 1960 by a Wall Street financier, the late John Langlois Loeb, and his wife Frances Lehman Loeb, and proceeds from the sale will go towards a charitable trust administered by their children.

The highlight of the auction will be a portrait by Cézanne of his wife in a yellow armchair. Three other similar portraits are in museums, and competition for this one could push the price towards \$30m, beating the previous auction record for Cézanne of \$23m, paid in 1993. A landscape by the French post-Impressionist of the rooftop of L'Estaque, with hints towards Cubism, is

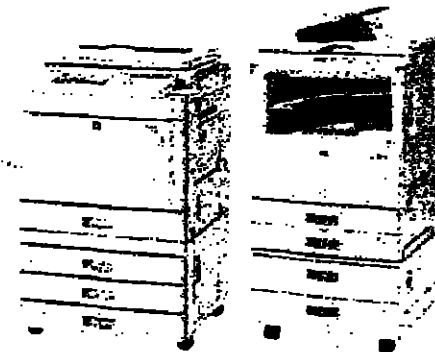
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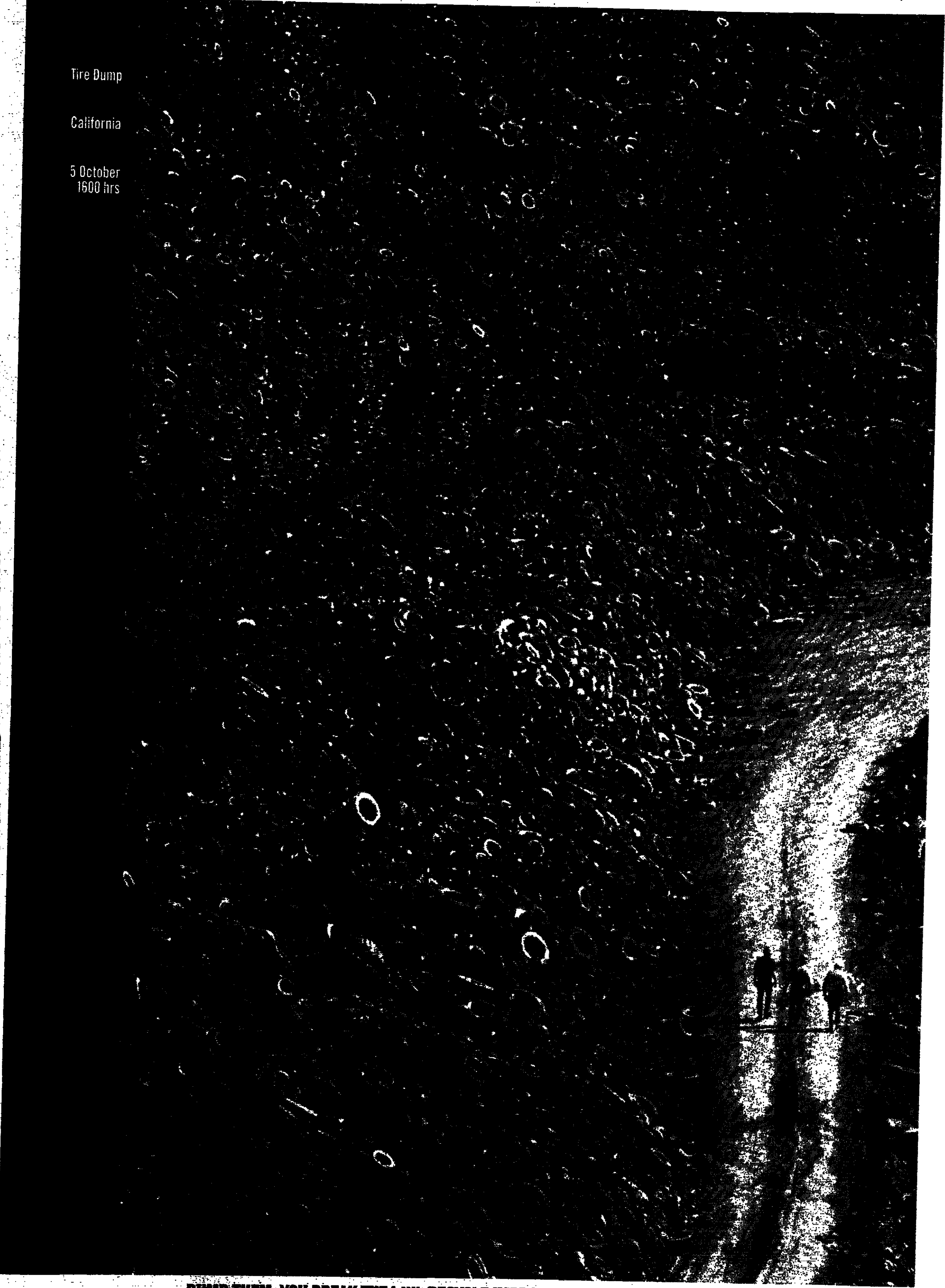
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TECHNOLOGY

Worth Watching • Vanessa Houlder



Marker vaccine for cattle

A "marker" vaccine that allows farmers to distinguish between infected and vaccinated cattle has been developed by Bayer, the German chemicals and pharmaceuticals group.

Cattle infected with the respiratory disease known as infectious bovine rhinotracheitis (IBR) can pass on the disease for the rest of their lives, even though they appear healthy. The infected animals cannot usually be distinguished from vaccinated animals because they have the same antibodies in their blood.

The IBR marker vaccine, however, does not contain a particular protein which means that the antibodies in a vaccinated animal differ from those of infected animals.

Bayer believes that the vaccine will help lower trade barriers in the European cattle market. Bayer is also working on a marker vaccine against swine fever.

Bayer, Germany, tel 214301; fax 21430822.

Green source of haemoglobin

Pioneering research into the production of human haemoglobin from plants could eventually lessen reliance on blood donations from human volunteers, according to a report in today's Nature.

Scientists at the Hôpital de Cécéaux in France inserted genes for producing human haemoglobin into tobacco plants. The plants were able to produce the two different human proteins - alpha and beta-globins - that make up haemoglobin. The assembled proteins were able to bind oxygen and carbon monoxide, like the natural form of human

haemoglobin.

Transgenic plants could become an inexpensive source of uncontaminated blood, the researchers say.

Hôpital de Cécéaux, France, tel 145708383; fax 145706446.

Laser beams into hazard sites

A laser-based analysis technique developed by the nuclear industry makes it possible to examine materials and liquids in hazardous environments without needing to remove a sample.

The technique, which stemmed from research carried out at Swansea University, was developed by Magnox Electric, the nuclear power station operator, for remote metal sampling in nuclear reactors. Previously, it was necessary to remove the control rods from the reactor for chemical analysis.

The technique involves sending a short laser pulse down an optical fibre. It blasts a microscopic amount of material from a metal surface, which then forms a light-emitting plasma. Light from the plasma is collected by a second fibre and returned for analysis by a computer-controlled sampling spectrometer, which measures the trace elements in its composition.

Magnox Electric, UK, tel (01143) 810451; fax (01143) 812523.

Single chip radio makes waves

An integrated circuit has been designed by Hitachi, the Japanese electronics company, and The Technology Partnership, a UK research and development organisation, that brings the cellular telephone industry's goal of putting a radio on to a single chip a step closer. A greater degree of integration will make it possible to make smaller, cheaper cellular telephones with lower power requirements.

In the cordless telephone market, California-based National Semiconductor has already designed a single-chip radio.

The Technology Partnership, UK, tel (011763) 262626; fax (011763) 261532.

Carlo Rubbia is best known as a Nobel prize-winning elementary particle physicist.

Recently, though, he has branched out from his normal subatomic domain, with its quarks and bosons, to drum up support across Europe for his "energy amplifier".

Rubbia, a former director of Cern (the European Organization for Nuclear Research) who still works from the Geneva-based organisation, is touting the project as a clean-burning, waste-eating, energy producer - and a cost-efficient alternative to conventional uranium-burning reactors. But so far, the idea is generating heat only in the scientific community. Critics acknowledge the design's technological feasibility and improved safety, but question its economic viability.

The amplifier, a cross between a proton particle accelerator and a fission-driven nuclear reactor, is partly based on studies initiated in the US and Canada in the 1950s. In a nutshell, it would intensify and control nuclear reactions in a convection-driven contraption that is reminiscent of an inverted earthbound intercontinental ballistic missile.

The main reactor would rest 30m underground in a silo 6m in diameter. The core of the amplifier is a heat-producing reaction unit into which a beam of high energy protons would be directed from an external accelerator called a cyclotron. This would breed the metallic radioactive element thorium into fissionable, recyclable uranium 233, a uranium isotope used in conventional reactors. Thorium is three times more abundant than natural uranium and at around \$50 (\$20) a kilogram only half the cost.

The reaction unit would be surrounded by molten lead for natural cooling and convection. The heat generated from the reaction would convect into the molten lead, which would rise up to heat exchangers. These would conduct this thermal energy out to generate electricity. Rubbia contends the whole structure is safe because there are 30m of lead between the surface and the reaction unit.

The resulting waste would not only be significantly lower in radioactivity than in conventional reactors, but would eventually deteriorate to produce no more radioactivity than coal ash.

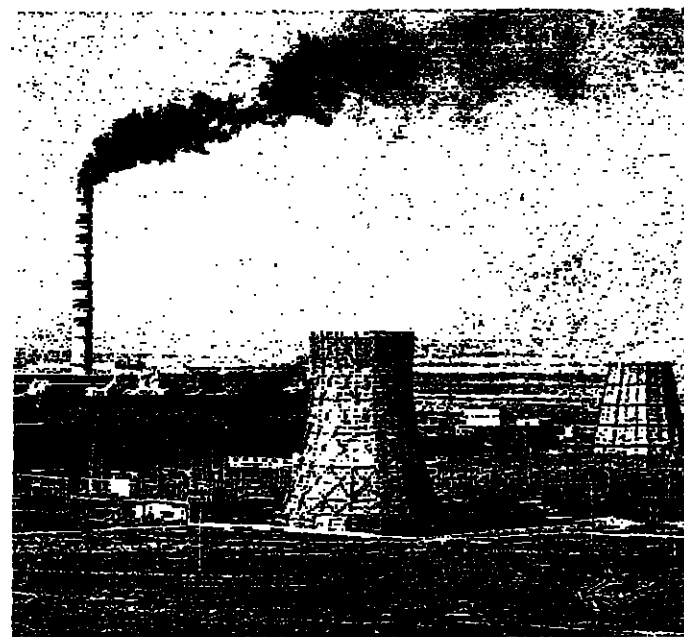
A computer technique that was originally developed to solve fluid flow problems in the nuclear industry may soon help surgeons to prevent post-operative arterial blockages.

It uses computational fluid dynamics (CFD) software programs to improve the design of grafting new arteries to bypass diseased ones.

Blockages in human arteries are a big cause of death and disability in the western world. For several decades the problem

Heated argument

A Nobel prize winner is seeking backing for his 'energy amplifier' project, writes Bruce Dorminey



Burning question: Rubbia's project could replace coal-fired power stations

And while the amplifier would not create any plutonium by-products, it could still burn plutonium waste from other reactors. Critical melt-down accidents could also be eliminated, says Rubbia, since the particle accelerator would control reactions. Cern has proved in tests that the amplifier could produce 30 times as much energy as that

expended, although some physicists still believe the figure would be closer to five. Even with a big net energy gain, though, some critics foresee economic problems if construction costs were to be 50 per cent more than those of a conventional reactor.

Rubbia counters such pessimism by pointing out that the amplifier's design would allow savings on construction and operations.

"With natural uranium you are only burning 0.7 per cent," says Rubbia. "With our amplifier we burn it all because the fuel is recycled. It is burned once, rejuvenated and put back again and goes on forever until completely used up. What comes out are only fission fragments which are non-fissionable and non-proliferable. So our machine eats all its own garbage."

Rubbia has demonstrated the validity of the amplifier's physics. Now he would like to move on to a medium-sized prototype capable of producing 100MW of power, one tenth of a full scale machine. The prototype would cost \$500m, a fifth the amount of a full industrial model, and could be built in three to four years. Construction on a full-scale model would take a couple of years longer. "We've met with the European Union's science and technology committee which set up a subcommittee to study this," says Rubbia. "They came up with a positive recommendation. We also had a good response from various MPs and experts at the French National Assembly."

But funding is far from complete or even assured. Also, the amplifier and similar designs in development at Los Alamos National Laboratory in New Mexico are probably more viable as nuclear waste burners than economical energy producers. "No one wants to get rid of trash unless they make some money out of it," says Rubbia. "In our case we are making trash destruction profitable. A little machine can eat a kilogram of

plutonium - per day." Los Alamos is leading US research on accelerator-driven transmutation to convert plutonium and related actinides (or naturally radioactive elements) into manageable waste. The lab envisages being able to transmute hundreds of tons of plutonium in a few decades. And with more than 1,600 tons of plutonium in worldwide stockpiles, interest in such transmutation has heated up. There is already an international steering committee to encourage development of such clean-up technology.

Rubbia still hopes his design will be used primarily for energy production instead of waste destruction. World coal consumption is expected to increase 60 per cent by the year 2020, according

to Rubbia, mainly because of big increases in coal use in China and India. The amplifier would provide a much more environmentally-friendly alternative to burning coal, he says.

"The only way to convince developing countries to change," says Rubbia "is if you produce something sufficiently simple so they can use it and sufficiently cheap so the cost is less than coal."

Yet Jim Ugras, a retired director of the Accelerator Physics Division at Canada's Chalk River National Laboratory, says the amplifier's system may be economical in 50 years' time but is certainly not now. Also, he says, fissionable uranium remains too readily available for use in conventional reactors for countries to bother investing in an energy amplifier as a primary nuclear energy source.

Nuclear technique runs in the blood

has been treated by grafting a bypass which improves the arterial blood flow.

This procedure is normally successful, but further blood clots may form, causing thrombosis, or there may be tissue over-growth leading to renewed plaque formation.

Researchers at North Carolina State University believe they have pinpointed the cause of the

problem - that the junction between the new and the old artery can be too sharp and too narrow.

Using CFD to simulate the flow of blood through the grafted joint, they have found that the sharp edges of the junction between the original artery and the bypass in a traditional graft cause flow disturbances. These can lead to plaque formation at

the intersection.

Doubling the area of cross-section at the graft/artery joint and smoothing the flow path will, they believe, result in much smoother flow and reduce to zero the troublesome "wall shear" throughout the critical joint area.

Most bypass operations of artery junctions, say researchers at the university, are performed

on an ad hoc basis and their success depends on the experience of the surgeon, the patient's individual anatomy and other factors - including luck.

With further research they hope to eliminate thrombosis and plaque formation by designing better graft-artery junctions.

Michael Sibley

The venom of a snake helped us formulate a life-saving drug. Hoechst.

In a number of civilizations, snakes have long been revered as a symbol of healing.

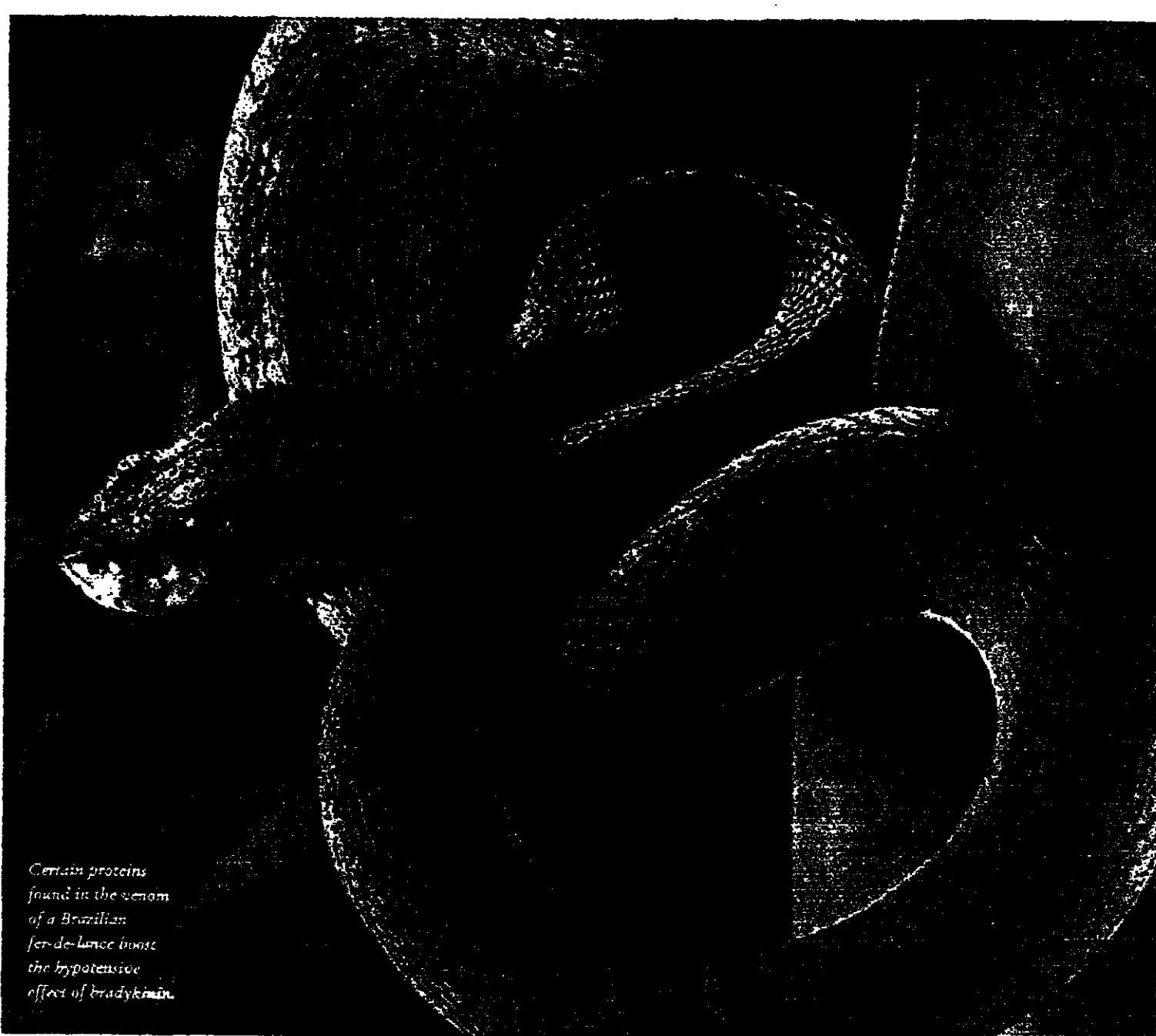
It was 90 years ago that scientists developed a better understanding of exactly how snake poisons act in the human body.

Protecting the heart and the cardiovascular system.

An example of research in this field is an active substance used to treat cardiovascular disorders.

The human body contains certain tissue hormones called kinins, which reduce blood pressure and open the blood vessels. Now it has been discovered that the blood-pressure-lowering and vasodilating action of the kinins can be boosted by proteins found in the venom of a Brazilian pit viper.

Scientists at Hoechst Marion Roussel, the pharmaceutical division of Hoechst, have used this discovery to synthetically produce these proteins and thus



Certain proteins found in the venom of a Brazilian fer-de-lance boost the hypotensive effect of bradykinin.

develop a new life-saving drug. Research into cardiovascular disorders has always played an important role at Hoechst.

In 1904, Hoechst researchers were the first to synthesize the hormone adrenaline.

Other vital developments followed, including edema therapy and preparations to dissolve blood clots.

Today, Hoechst Marion Roussel offers one of the broadest lines of cardiovascular products.

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Cinema/Nigel Andrews

Out of the fast lane

JERRY MAGUIRE
Cameron CroweBLOOD AND WINE
Bob RafelsonNORMAL LIFE
John McNaughtonSWANN
Anni Benson GylesIRMA VEP
Oliver Assayas

Jerry Maguire, a satirical sentimental comedy starring Tom Cruise, begins in such high gear that it is like being ambushed by one of those surprise birthday parties beloved of Hollywood movies. Victim (in this case) opens door; lights go up on revelers; victim either bursts into ecstatic delight or, as in the recent *Ger Shogun*, has a heart seizure.

For 20 minutes the wise scene is heart-seizure manic. Writer-director Cameron Crowe made the deft and quiet comedies *Say Anything* and *Singles*. Here he seems to have swapped deft for "Are you deaf?" and subtlety for swirly camerawork and jackhammer editing - yet there is real exhilaration in the film's early confidence and attack.

The plot is simple and caustic. Sacked from his firm after circulating a "Smaller is better" pamphlet urging fewer, more careful clients, sports agent Jerry (Cruise) finds himself left with one client, a semi-demented black footballer (Cuba Gooding), and one loyal co-worker (Renée Zellweger), a single mother whose wistful prettiness and goodness have been lured from him away from his selfish fiancée (Kelly Preston).

Yes, this is the one about the fast-lane hero who slows down, as the film finally does, to find himself. You could fill in most of the itinerary yourself. Ms Zell-

weger's child will of course loom large, a cutely precocious tot with wire-rim specs and a brain the size of a small atom bomb. And the path of true love will be strewn with crises, such as bankruptcy, bickering and Miss Z's jealous live-in sister (Bonnie Hunt) with her divorced women's soirees.

But the biggest, subtextual crisis - one unrecognised by the film itself - is our old friend, male buddyism. All the liveliest scenes are those between Cruise and Gooding. Hollywood's premier superbait has improved his technique here: we enjoy the steep comic swings between executive stress and pantomime *well-schmerz*. But the only other person performing to his hyped-up level is his footballer protégé, a squealing, gesticulating braggart hammed to glorious effect by Gooding, who acted Paul Hogan off the screen, you recall, in *Lightning Jack*.

It seems only right that this passionate friendship climaxes in the closest that Hollywood can come to an all-male sex scene: a *thick-o-dee* in the frank nudity of a shower room. These two men are a match in idiot charm and the film catches a lift and lightness each time they are together. When they are not, it says like an ill-timed soufflé.

Hailed in America as a sophisticated, subversive human comedy, *Jerry Maguire* is really a high-decibel fantasy for the status quo. Women are either sweet things who will wait for their man or bitter Medusas licking the wounds of separation. Athletes are lovable dimwits who need to be nannied. And agents - the people, you remember, who run Hollywood - are, if you burrow deep, simply sweet people who have lost the keys to their souls.

John McNaughton's *Normal Life* and Bob Rafelson's *Blood And Wine* are both about that well-known American institution, the criminal family. But as guns bark and thieves fall out at opposite ends of America, it becomes clear that Chicago is a more conducive place than Miami to devel-



Male buddies: Tom Cruise and Cuba Gooding in 'Jerry Maguire'

oping lucid theorems of human disaster.

We know what happens in Florida: film-makers are seduced by exoticism. In *Blood And Wine* we must have scenes in boats, in seedy subtropical bars and in pastel-coloured mansions full of the drawing, tubed rich. We must also have - memories of Sydney Greenstreet - a barny English crook in an off-white suit (Michael Caine), who will steal the film from everyone including his jewel-robbing co-star Jack Nicholson.

Rafelson has called this the third film in a trilogy including *Fine Easy Pieces* and *The King Of Marvin Gardens*. If so, it bears the same relation as *Godfather 3* did to its precursors: an ill-scripted dynastic imbrogio about a son (Stephen Dorff) facing off with his (step)father, here played with familiar fly-boy devilry by Nicholson.

Around the McGuffin of a stolen necklace the plot twists like a water-snake, while the characters either drown in underdevelop-

ment (Judy Davis as Mum) or keep resurfacing to assert manic mannerisms. No character is believable, mainly because the plot itself makes no logical sense. Thank goodness for Caine, who is at least funny, even if he seems to have stepped straight off the set of *Dirty Rotten Scoundrels*.

In *Normal Life* too, events commute between tragedy and farce. But every minute is believable. The onetime director of *Henry: Portrait Of A Serial Killer* makes movies that are like sequences of mug shots. McNaughton's camera is plunked down in the room and the character-detectives are shot from front, left side, right side. With a first-rate script (by Peg Haller and Bob Schneider) little more is needed.

Here hardworking policeman Luke Perry falls for mentally fragile beauty Ashley Judd and is soon coming home to a house in chaos. Empty beer and pill bottles, unpaid credit card bills; and a dog that gets its dinner before he does. Crime, he decides, is the only option and once again it all

goes well until she joins in...

The matter-of-factness is majestic. We never need to know why the poor girl comes to her father-in-law's funeral in hot pants and rollerskates, or why one bored day she carves welts on her breasts with a knife, or why she fatally fires her gun during a bank holdup. We just believe she would do these things because we sense - thanks to that forensic camera and to Judd's jittery, jaded, glowing truthfulness - this woman's disappointment that life is never as hectic or engulfing as she needs it.

Swann is another murder story, but Anglo-Canadian. So gentility reigns and the killing takes second place - or first place, before the story's commencement - to a delicate inquest into the human spirit. Was Mary Swann, the village girl murdered by her lover, a major poet? What do her haiku-like scraps of verse, cautiously surrendered by surviving friend Brenda Fricker to investigating authoress Miranda Richardson,

tell us about life, death, literature and Mary?

The film, based on a novel by Carol Shields, is so tippy-toed about that it might be a Henry James story dramatised by Ivy Compton Burnett. Violent events happen offscreen or in flashback: the present is all conversations, gloom landscape shots and the subtle gestural semiotics of a dawning friendship. To hesitate between a kiss and a handshake, then nervously to do both, neatly defines Fricker and Richardson's dance of affection and distrust. And audience patience is rewarded by the slow but shrewd working out of a fable about the letter versus the spirit, both in art and human communication.

Irma Vep is a mad French film about mad French film-makers. Remaking a classic silent serial in modern Paris is never easy when you have a Hong Kong leading actress (Maggie Cheung), a roaming cat burglar and Truffaut's Jean-Pierre Léaud having a breakdown as the director. Weird, wayward, but fun.

Theatre/Sarah Hemming

Witty games of romance

they complement each other perfectly.

Act one is set in turn-of-the-century Vienna. Here Alfred and Josefina, rich and jaded, decide independently they might encounter a more genuine lover by taking on a different, less wealthy persona. So, disguised as a poet and a shopgirl, they set out for adventure and meet - each other. There follows a whirlwind romance, neither aware of being deceived as well as deceiving. Harman's stage version bats the action back and forth between the characters and his lyrics are sprinkled with tart little witticisms; Herrmann's equally playful score is driven by waltzes and polkas and abounds with musical references to the period.

Steven Dexter's direction is enormously sympathetic to the mood of the piece: noble, clever and funny. And Caroline O'Connor and Mark Adams are thoroughly enjoyable as the cou-

ple. O'Connor brings a brittle quality to her character that suggests desperation, while Adams has marvellous control, his suave command giving way to reveal a more vulnerable side. If there is a doubt about the show, it is that, in this half at least, it looks a little overstretched.

No such problem exists with the second act and here O'Connor and Adams are tremendous. This could, in fact, have been the weaker half, since the story itself is so slight: it simply concerns a couple of friends who, on holiday together with their respective spouses, stay up too late one night and flirt a little too seriously for comfort. But Herrmann and Harman have cannily updated the original to 1990s New York, which lends a twist to the story and emphasises the evening's message: that human nature changes very little.

In Dexter's perfectly paced pro-

duction, O'Connor and Adams draw you into the dilemma of the characters with great persuasion. They tease each other; they protest their devotion to their spouses; they gradually drop their guard, while their sleeping partners urge caution from the sidelines (strong support from Linzi Hateley and Michael Cantwell).

This, of course, is pure Sondheim territory, and there are times when both the restless, barbed score and sardonic, rat-a-tat lyrics put you in mind of *Company*. Occasionally, the piece is swamped by schmaltz, but for the most part there is an acerbic quality to music, words and performances that keeps the evening afloat. So when it ends, with all the characters urging you to "cherish your romantic notions", you are not too inclined to heed their advice.

Gielgud Theatre, London W1 (0171-494 5065).



Bitter-sweet: Michael Cantwell and Linzi Hateley

Opera

Schaaf's 'Aida' booed

A scandal! I'd almost forgotten the word, until I heard a wall of boos erupting at the interval curtain of *Aida* at the Zurich Opera House on Saturday. Operatic scandals have become few and far between. In Paris, give or take the occasional strike, prudence is the order of the day. In post-unification, post-Berghaus Germany, scandals are an unaffordable luxury.

But a producer like Johannes Schaaf would lose face in the German theatre world if he didn't make the occasional avant-garde gesture. And so he and his designer, Reinhard von der Thannen, hit upon the idea of *Aida* as contemporary drama, in a stylised Egypt where terrorists set fire to buses in the shadow of the pyramids. The king was a comic demagogue in epaulettes and fez, the priests indulged in pseudo-Islamic ritual, and Radames wore white military uniform. While the serious business of war was discussed, off-duty officers whooped it up with champagne. Snap-happy tourists were herded around the triumphal scene, and the ballet was a funky, frisky take-off of parade-ground drill.

In a programme article laden with the hang-ups about war that so many German intellectuals of his generation carry around with them, Schaaf said *Aida* was an opera about state ideology, encapsulating Verdi's "erie vision of the Germanisation of Europe". The Germanisation of *Aida* would be a better way of describing this charade, which blunted the human situations and emotions so sharply drawn by Verdi. Schaaf's comic-ironic observations would barely pass muster in a boulevard revue. Only in the final duet, brilliantly concentrated in a pool of light, did he allow Verdi to speak for himself.

Nikolaus Harnoncourt, conducting his first Verdi opera, must share the blame for the production's wrong-headedness. Moments of illumination - the veiled stillness of the opening and closing pages, the crackle of hysteria in the Act 3 *Aida*-Amneris duet - were few and far between; there was too much stiff phrasing and not enough Verdian legato, a common fault of Germanic conductors in Italian opera. I respect Harnoncourt for his open-minded, questing musicianship, but he must surely realise that Verdi is not Monteverdi. If he wants to expand his repertoire, he would be better off investigating one of the early Romantic Italians.

Musically, the performance was carried by Vincenzo La Scala and Daniela Dessi. La Scala may not have the romantic looks for Radames, but his voice is filling out well, and he used it with taste, if not a great deal of refinement. Dessi, blacked up like an Ethiopian model, looked very exotic; she has the vocal equipment for *Aida*, but there is a touch of coldness which hampers all her performances. Matti Salminen made a bear-like High Priest, Marjana Lipovsek an un-Italianate Amneris, while Giorgio Zancanaro's Amonasro was a shadow of his former self. On the brighter side, László Polgar's crisply sung King was more than just a curiosity. A pity the whole could not be said of the same show.

Andrew Clark



AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Schöenberg Ensemble: with conductor Reinbert de Leeuw, pianist Joanna McGregor and soprano Rosemary Hardy perform works by Bartók, Zemlin, Knussen and Szymanowski; Mar 8

EXHIBITION
Stedelijk Museum Tel: 31-20-5732911
● Markus Lüpertz: a large retrospective of the work of the German painter Markus Lüpertz. Among the works on display is "Golgatha" (1963), a major piece recently added to the museum's collection; to Mar 31

BASEL

EXHIBITION
Kunsthalle Basel Tel:

concerns are with the human body, which he approaches by constructing figures from straw, animal skins, branches and wax; from Mar 9 to Apr 27

BERLIN

FESTIVAL
Musik-Biennale Berlin Tel: 49-30-254890
● Musik-Biennale Berlin: a series of concerts promoting new music. Highlights include performances by the Ensemble Modern, the Deutsches Symphonie-Orchester, the Berliner Sinfonie-Orchester and the Ensemble L'Art Pour L'Art; from Mar 7 to Mar 16

OPERA
Staatsoper Unter den Linden Tel: 49-30-20354438
● Lulu by Berg. Conducted by Michael Gielen, performed by the Staatsoper Unter den Linden. Soloists include Laura Aldin, Rosemarie Lang and Dagmar Pecková; Mar 9

COLOGNE

JAZZ & BLUES
Kölner Philharmonie Tel: 49-221-2040820
● Acker Bilk: the clarinetist performs jazz music. The programme also includes a performance by trumpeter Kenny Ball; Mar 8

DUSSELDORF

EXHIBITION

exhibition of 150 glass objects showing the influence of 1960s American design on the work of the 1980s; to Apr 6

GENOA

OPERA
Teatro Carlo Felice Tel: 39-10-589329
● Carmen: by Bizet. With conductor Alexander Lazzarev, performed by the Teatro Carlo Felice. Soloists include Graciela Araya, David Rendall and Giorgio Surjan; Mar 7, 8, 9

HAMBURG

EXHIBITION
Museum für Kunst und Gewerbe Tel: 49-40-24962732
● Haiku and Haiga: display of 130 works taken from illustrated Japanese Haiku poetry books. The exhibition focuses in particular on Tetsu Sôchô, author and illustrator of more than 30 Haiku books during the 17th and 18th centuries; from Mar 7 to May 4

LISBON

CONCERT
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131
● Esther Goepfert: performance by the clarinetist, accompanied by pianist Nigel Clayton. The programme includes works by Messiaen, Saint-Saëns and Castelnuovo-Tedesco; Mar 10

Royal Festival Hall Tel: 44-171-9604242
● City of Birmingham Symphony Orchestra and Electric Phoenix with conductor Sir Simon Rattle and cellist Lynn Harrell perform works by Berio, Lutoslawski and Messiaen; Mar 9

EXHIBITION
National Portrait Gallery Tel: 44-171-3060055
● August Sander: major retrospective exhibition of the work of the German photographer, in a series of uncompromisingly direct photographs, Sander recorded rural and urban society in Germany both before and after the first world war. The 200 photographs on display, drawn from Sander's own collection, includes many previously unseen images; to Jun 8

OPERA
Royal Opera House - Covent Garden Tel: 44-171-2129234
● Così fan tutte: by Mozart. Conducted by Dietrich Bernet, performed by the Royal Opera. Soloists include Soile Isokoski and Helene Schöndeman; Mar 8, 10

MADRID

EXHIBITION
El-MEAC - Museo Español de Arte Contemporáneo Tel: 34-1-5492453
● Artistas Plásticos. Retratos de Pintores y Escultores del Siglo XX en las Colecciones del Museo;

the museum's own collection. Artists featured include Madrazo, Esquivel and Sorolla; to Apr 20
● Museo Nacional Centro de Arte Reina Sofía Tel: 34-1-4675062
● Vija Celmins: exhibition featuring paintings and drawings by the Latvian-born painter whose work began in the 1960s with a series of images of household objects painted with absolute objectivity. Also on display is a rare sculptural work, made up of copies of a set of stones collected from the New Mexican desert. The exhibition was previously shown at the Institute of Contemporary Arts in London; to Mar 23

MILAN

OPERA
Teatro alla Scala di Milano Tel: 39-2-89791
● Wozzeck: by Berg. Conducted by Giuseppe Sinopoli, performed by the Orchestra a Coro del Teatro alla Scala. Soloists include Catherine Malfitano, Kim Begley, Franz Grundheber and Michael Howard; Mar 8, 9

NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Piano Trio: the pianists Eric Reed, Jacky Terrasson, Benny Green, Stephen Scott, Renee Rosnes and Danilo Perez perform jazz piano trio; Mar 7, 8
● Avery Fisher Hall Tel: 1-212-875-5050

the New York Philharmonic. Soloists include soprano Kallen Esperian, mezzo-soprano Markella Hatziano and tenor Ben Heppner; Mar 8

PARIS

CONCERT
Théâtre de l'Opéra Comique Tel: 33-1-42 44 45 46
● La Grande Courie et la Chambre du Roy: with conductor Jean-Claude Malgoire and tenor Derek Lee Roy perform works by Haydn and Mozart; Mar 10

OPERA
L'Opéra de Paris Bastille Tel: 33-1-44 73 13 89
● Carmen: by Bizet. Conducted by Gary Bertini, performed by the Orchestre et Chœurs de l'Opéra National de Paris. Soloists include Franck Ferrari and LeRoy Villanueva; Mar 10

WASHINGTON

OPERA
Opera House Tel: 1-202-416-4600
● Elektra: by R. Strauss. Conducted by Heinz Fricke, performed by the Washington Opera. Soloists include soprano Eva Marton, mezzo-soprano Ruthild Engert, soprano Karen Huffstodt, baritone Richard Paul Fink and bass James King; Mar 9

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COMMENT & ANALYSIS



Peter Martin

Weak link in the chain

Distribution difficulties have meant that Japan's successes in the west's car and consumer electronics markets have not been equalled in other industries

Nothing is more empty than yesterday's threat. It is already hard to remember why we were so worked up about the Cuban missile crisis, so frightened of herpes, the oil embargo or Mexican killer bees.

As on the front page of the tabloids, so in the sober columns of the business press. Who now frets that Japanese consumer products companies will do to Heineken, Procter & Gamble or Merck what Toyota, Honda and Sony have done to American Motors, BSA and Zenith?

Yet little more than a decade ago the fear of a Japanese invasion was widely shared. Big companies like Kao in household goods, Nomura in the securities industry and Suntory in drinks were seen as the logical successors to Nissan and Matsushita as aggressors in western markets.

Today, that fear seems laughable. The threat that Japanese competitors would sweep across a wide range of western markets has faded. The automotive and consumer electronics businesses, once seen as merely the vanguard of the Japanese invasion, now look increasingly like exceptions — two areas of special competence which other Japanese industries cannot hope to rival in global impact.

A symbolic event, for this line of reasoning, was the recent announcement that Green Cross, the Japanese blood-products company, was to surrender its identity in a hasty merger with a local rival. The deal was, in effect, a rescue of Green Cross after its involvement in Japan's version of the AIDS-contaminated blood scandal.

Readers with longer memories will remember Green Cross as one of a clutch of Japanese pharmaceutical companies that were headed for world domination. By 2000, wrote one enthusiastic young FT reporter in 1982,

Japan could have a pharmaceutical industry as big as that of the US.

What has gone wrong? One obvious answer is the giant error the Japanese economy made during the "bubble years" of the 1980s.

Then, powered by extraordinarily cheap capital, Japanese companies in a range of industries rushed into overseas deals founded on no real business logic. Trophy acquisitions of banks, movie studios or property were probably doomed from the outset, and it is not surprising they have come painfully unstuck.

But this is only part of the story. More interesting than these obvious failures is the limited success of international expansion projects soberly executed by well-managed companies.

Shiseido, Japan's leading cosmetics company, still gets less than 10 per cent of its revenues from overseas, despite decades of dogged attempts at expansion abroad. Kao, the Unilever of Japan, bought Andrew Jerkins in the US and Goldwell in Germany in the late 1980s. Both companies — which make personal care products such as skin creams and shampoos —

have consistently lost money under their new owner. Though Kao is optimistic about their future profitability, rivals view them as little threat.

Each individual industry and company is different. Perhaps Kao could have made different acquisitions. Perhaps Japan's pharmaceutical companies are quietly building the international scientific base and regulatory approvals which will win them a global presence in the years ahead. Perhaps their relatively stronger position in fast-growing south-east Asian markets will give Japanese consumer products companies the last laugh.

Perhaps. But the barrier to future success is the same as the underlying explanation for past failures. It can be summed up in one word: distribution. It is their experiences with the distribution chain which explains why Japanese companies' international expansion has worked in cars and consumer electronics but proved much less successful in other areas.

Outsiders never find it easy to break into established patterns of business, to acquire enough "mental shelf space" in the heads of wholesalers, retailers and consumers to build sales to levels that offer economies of scale. Japanese companies have a special difficulty here: Japan's idiosyncratic methods of getting products from manufacturer to consumer offer little experience relevant to the rest of the world.

In the case of cars and consumer electronics, however, there were structural reasons why western distribution systems allowed an outsider to muscle in. In the car industry, the tradition of exclusive vertical distribution meant any producer had to build its own network of dealers and distributors. This was a formidable barrier to entry, but overcoming it required merely money and hard work. Once Japanese car companies had built their own distribution networks, they could run them as they chose, without having to tangle with the rest of the industry.

In fact, the car industry system of exclusive franchises confers an unexpected benefit on newcomers from a different background. Because setting up a network of distributors and dealers is so expensive, it usually requires partnership with local entrepreneurs. When this has worked it has produced the ideal combination of local knowledge and Japanese thoroughness.

In consumer electronics, the distribution story has been different but no less helpful to Japanese newcomers. The industry was, in its early years at least, driven by technology rather than marketing, offering innovative outsiders such as Sony and Matsushita an advantage that offset any distribution weaknesses.

In addition, the rapidly falling price of electronic gadgets led to a shift from specialist small-scale shops to cut-price "box-shifters". In such circumstances, dom-

inant suppliers usually try to freeze out the aggressive discounters to protect their existing distribution channels. This makes the new retailers the natural allies of less established suppliers, such as the Japanese electronics giants.

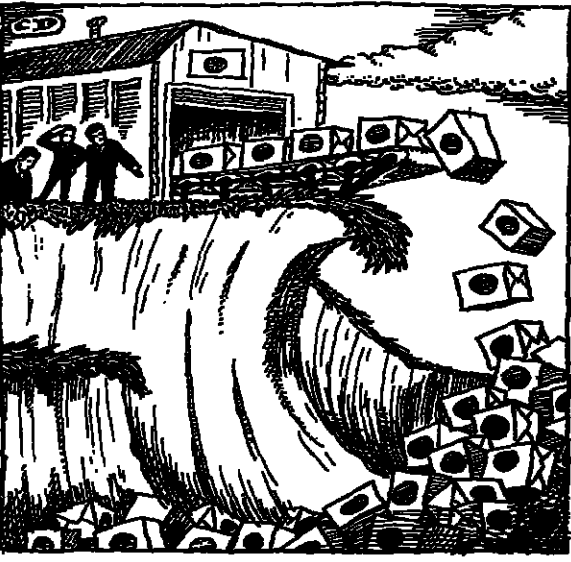
Other industries in which Japanese companies have attempted to make inroads show a different pattern of distribution. Typically, they have well-established, shared distribution systems, with strong distributors and retailers. In healthcare, for example, there are usually national pharmaceutical wholesalers which play a crucial gate-keeping role; in household products there are powerful supermarket chains; in cosmetics there are department stores and specialist retailers.

Through Japanese companies in these areas usually have technology which is up to world standards, they are rarely able to demonstrate a decisive technical superiority. Labour is no longer cheap in Japan and the yen is no longer undervalued, so these two advantages which helped early Japanese exporters to push their way into hostile markets are no longer present.

This lack of a clear comparative advantage has increased the importance of skilful handling of overseas distribution channels. It is here that many Japanese companies have yet to demonstrate real success.

This does not mean that Japanese companies are not fierce, competent rivals across a wide range of industries. But they will win, and lose, their competitive struggles on their own merits — not on the back of some inherent national invincibility.

Today, that may seem obvious, but it was certainly not so clear a decade ago. So the next time the business world is seized by a generalised fear, remember Green Cross — and killer bees.



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BOOK REVIEW Bernard Simon

THE REICHMANNS: Family, Faith, Fortune and the Empire of Olympia & York, By Anthony Bianco
Times Books, 810pp, \$30

A family steeped in moral ambiguities

"Reclusive" was the favourite adjective used to describe Canada's Reichmann family during the rise and fall of Olympia & York. Outsiders were given hardly a glimpse of the family or the inner workings of its business as Paul Reichmann's ambition built O&Y into the world's biggest property developer, then sent it crashing into bankruptcy five years ago. This meticulously researched book by journalist Anthony Bianco peels away many of the veils and reveals a family with remarkable talents and frailties.

Samuel Reichmann — father of six children, including Paul — laid the foundations for O&Y more than 70 years ago in Hungary and Vienna. He made a small fortune distributing eggs throughout Europe after the Bolshevik revolution cut off supplies from Russia.

He had the foresight, money and contacts to stay one step ahead of the Nazis — moving his wife and family first to Paris then, via Spain, to the free port of Tangier. The family spent 16 years in Morocco, where Samuel added to his wealth as a currency dealer and private banker. His wife Renée spent the war organising care packages for concentration camp inmates and working to obtain exit visas for Orthodox Jews in Hungary.

The book questions whether Samuel Reichmann the banker lived up to the high moral standards of Samuel Reichmann the Orthodox Jew. His clients included Albert Grebler, a Jew blacklisted for trafficking with the Nazis. According to Bianco, "changing a smuggler's bankroll and arranging surreptitious capital transfers at 10 per cent per

transaction hardly qualified as a higher calling".

In the mid-1950s the Reichmanns moved to Canada, which they found more tranquil and tolerant than the US. Two of Samuel's sons, Edward and Louis, settled in Montreal. Edward ran a construction business, but suffered the humiliation of being bailed out by his three Toronto-based brothers.

Spearheaded by Paul, O&Y made one daring move after another. By the late 1980s, it was the biggest landlord in New York. It was steaming ahead with the giant Canary Wharf development in London's Docklands, planning another enormous project in Tokyo, and bidding for the Sears Tower in Chicago, the world's tallest skyscraper.

The Reichmanns also spent \$10bn on diversification. They bought Abitibi-Price, the world's biggest newsprint producer; acquired a stake in Allied-Lyons, the UK food and drinks group; and supported fellow-Canadian Robert Campeau in his disastrous takeover of two of the US's biggest department store chains. By 1992, O&Y had amassed debts of \$20bn.

But Paul, even more than his father, encapsulated the moral ambiguities that come from combining business ambition with strict religious observance. His first job after completing rabbinical studies at Gateshead, England, was as (unpaid) education director of a network of Orthodox schools in Morocco.

Bianco has dug up countless vignettes of the family's strict observance and its support for ultra-Orthodox causes. A deal to buy Pilkington's tile business in Montreal in the early 1980s was made conditional on a rabbinical dispensation allowing continuous operation of the kiln. And almost

30 per cent of O&Y's profits were channelled into religious and charitable causes.

However, the Reichmanns' background, according to Bianco, "also bred an insularity that left large, fatal gaps in their knowledge, judgment and capabilities". He once dismissed an adviser's suggestion that he take profits on a bond investment with the retort that "my religion won't let me go to Las Vegas. This is my Las Vegas."

During O&Y's dying days, Paul infuriated creditors and his own senior managers with slippery negotiating tactics and unkept promises. Bianco's judgment is that Reichmann's conduct ultimately "fell well short of the standard of ethical irreproachability to which he had aspired as a young merchant". Reichmann, who gave Bianco 25 hours of interviews — acknowledged after O&Y's downfall: "The fact that I had never been wrong created character flaws that caused me to make mistakes."

The family has recently begun a comeback. Paul was part of a consortium that regained control of Canary Wharf last year. The next generation of Reichmanns has emerged as sizeable property developers and managers in Toronto.

But other victims of O&Y's collapse have fared less well. "The precipitous end of their charity was the greatest aspect of the Reichmann tragedy," observed one Jewish leader. "Even with the failure of the business, they would still be the most important people in Jewish life today if they'd only set up a foundation."

The Reichmanns is available from FT Bookshop by ringing FreeCall 6500 500 635 (UK) or +44 181 324 5511 (outside the UK). Free p&p in UK.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Albanian crisis invites imaginative response

From Mr D. M. Harrison.

Sir, In your article on the crisis in Albania ("Curse of the Pyramids", March 4), Kevin Done reports that more than \$1bn has been invested in pyramid schemes, and that their collapse has led to losses running so far into hundreds of millions of dollars.

These are, no doubt, huge amounts by Albanian standards: more than a third of its gross domestic product, which could have been better used laying the foundation of a market economy, appears potentially at risk. And yet they are not enormous amounts by international standards. Might this not be a case where a judicious, precisely targeted financial rescue package to make good losses incurred through fraud could do good, and perhaps restore some faith in Albania in the capitalist system?

No doubt political conditions would need to be attached, but an early, well designed scheme to restore confidence could be the starting point, with someone passing the hat round those of the world's public and private financial institutions with an interest in building markets and maintaining stability in this part of the world. A job perhaps for the Soros Foundation?

The response of the west to the collapse of commu-

nism has not so far shown scintillating imagination. Might not a quick burst of preventive economic diplomacy here stop a bad situation getting worse?

David Harrison, Little Thatch, Westcott, Talston, East Devon EX25 2RN, UK

From Mr Kevin d'Arcy.

Sir, I wonder what life would be like in Albania if the government had been offered help in educating its media and its public in the norms of financial markets?

The continuing introduction of free markets to developing democracies by gov-

ernments in the developed world, without offering a suitable mechanism for the public to make use of them, never ceases to amaze.

Meanwhile, ignorance, confusion, misery, disaster, chaos. It was interesting to note that Albania passed a law against deposit-taking by non-bank institutions such as pyramid schemes even before the UK banned such schemes. However, laws (especially unknown ones) are ignored there, while such laws are largely redundant here, in the face of a far more effective media.

Kevin d'Arcy, 20 Cardigan Road, London E3 5HU, UK

Income inequality must not get wider

From Mr Walter Stammers.

Sir, Commenting on the rapidly widening inequality of incomes in the leading nations, Robert Reich ("The menace to prosperity", March 3) asked: "Are we, or are we not, still in this together?" Samuel Brittan ("New role models for old", February 27) seems to answer "no".

He applauds the Netherlands for holding down wages and cutting benefits. The league table he gives illustrates the effect very well. Between 1981 and 1996, UK aggregate incomes (gross domestic product) grew by about 11 per cent. Employment and wages both went

down, giving a reduction in aggregate wages of 2 per cent.

So, although this does not appear in the table, an extra 13 per cent of GDP was allocated to non-wage incomes in the space of five years.

Taking a rough figure for the split between aggregate wages and aggregate non-wage incomes, this would imply a rise in the latter of around 50 per cent. For the other countries in the table, including Germany — currently criticised for not holding wages down enough — the same calculation shows that all four increased non-wage incomes by around 20

to 25 per cent in this five-year period.

Surely Reich is right to look on this trend with apprehension. Purely on grounds of prudence, let alone morality and economics, it cannot be extrapolated indefinitely.

I believe he is also right to reject the inevitability of free-market mechanisms. As he says, it is a matter of "the choices which a nation makes".

Walter Stammers, 49b Fen End, Over, Cambridge, CB4 5NE, UK

Straight talk

From Mr Lee Man Tuck.

Sir, Coca-Cola's legendary contour bottle came about as much by design as it did by accident. Although, as Richard Tomkins writes ("Coke tries a curvy can", March 3), the bottle's shape may have (mistakenly) taken its cue from the fluted contours of the unrelated cocoa bean pod, its source was an inspired in-house design brief from about 1910: this called for a bottle that could be recognised even in the dark. If only product design briefs today were as imaginative and succinct.

Lee Man Tuck, 151 Gloucester Avenue, London NW1 8LA, UK

The platform

From Mr Bryan Cassidy MEP.

Sir, In your editorial "Age of the new trains" (February 25), you refer to the need for the various companies providing UK passenger services to work together on such things as timetabling. Has the time come to reinvent Bradshaw?

Bryan Cassidy MEP, European Parliament, 97-113 Rue Belliard, 1040 Brussels, Belgium

Ownership is a troublesome umbrella term

From Mr Andrew Cecil.

Sir, John Kay ("Test of Possession", February 28) seems to misunderstand the different notions of possession. By comparing possession of an umbrella with possession of a British Telecommunications share and of BT itself, he fails to draw the reader's attention to the fact that there are varying degrees of ownership.

In the case of the umbrella and the BT share, ownership is absolute and therefore fits

neatly into the definition developed by Honoré.

This should be distinguished from ownership of BT itself. The shareholder's ownership of BT itself is only partial, and is dependant on the nature and size of his shareholding.

However, if Mr Kay were to hold 100 per cent of BT shares, having absolute control as in the example of the umbrella, not only would he be a very rich man but he would also be free to exercise Honoré's criteria of

ownership with BT itself, as well as with his shares.

All that his article demonstrates is that shareholding is a corporate form of separation of absolute ownership and as a result of the shareholder structure of BT, we can conclude that no single person has absolute ownership of BT.

Andrew Cecil, Rue d'Alsace Lorraine 34, 1050 Brussels, Belgium

COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday March 6 1997

Rough ride for Renault

Mr Louis Schweitzer, chairman of Renault, the loss-making French carmaker, must stick to his guns in trying to restructure the group. The decision to close Renault's Belgian factory with the loss of 3,100 jobs has provoked an understandable reaction from the plant's workers and the Belgian government.

But the task of cutting excess capacity from the European car industry is urgent, and Renault's move will not be the last. The Belgian government will only make matters worse if it pursues its European legal action against the French company or offers aid to keep open the plant.

Renault, which lost about £1.5bn last year, is perhaps five years behind some rivals, notably Germany's Volkswagen, in cutting costs. Under pressure from Japanese rivals, Europe's car companies have greatly improved quality and efficiency. But there is further to go.

The EU's manufacturing capacity still stands some 20 per cent above annual demand of about 12.5m cars. Until last year, Renault was shielded from competitive pressures by majority French state ownership. But that stake is now down to 47 per cent, and private control brings pressure to perform: Peugeot-Citroën, Renault's private competitor, has been consistently profitable, with a similar spread of manufacturing locations.

Subsidies such as that apparently being offered by Britain to Ford's Halewood plant are no answer. They have distorted the industry for too long by keeping open inefficient factories. If Belgium wants to improve its manufacturing it would be better advised to reduce labour costs by cutting employers' social security payments, among the EU's highest.

A reminder of how serious is the challenge faced by EU car-makers came yesterday with GM's announcement of expansion plans for Eastern Europe. The region's motor industry is developing much faster than was thought possible even three years ago. For example, in Poland, Fiat, GM, and South Korea's Daewoo, the three leading foreign investors, together plan to produce at least 600,000 cars a year by 2000. While output will mainly be aimed at local markets, exports will also play a growing role.

Eastern European plants benefit from wage costs which are 15 per cent of those in the west. While these will rise rapidly with prosperity, the region's producers can expect to retain some cost advantages for years to come. Companies with little or no eastern European production - including Renault - will be under even greater pressure both in their exports to eastern Europe and in the EU. Mr Schweitzer has no time to lose.

Pensions debate

For those who complain that the pre-electoral dialogue in Britain is sterile, the Tories now have a robust response. At a stroke, Mr Peter Lilley, the social security secretary, has shifted the terms of the welfare debate in an unexpectedly radical direction. By abandoning incrementalism in favour of the wholesale privatisation of state pension provision he has implicitly acknowledged that present policy is politically unsustainable. While the new radicalism may not be a vote winner, it is better than continuing to erode state pensions to the point where they offer hopelessly inadequate retirement incomes.

The starting point for any pensions reform must be that there is little scope politically for raising taxes, and this precludes any return to the position before 1979. The fiscal burden of an ageing population has been reduced by the government's paring down of pension benefits. But there remains a potential crisis of need. The problem is unlikely to be resolved without further reliance on private provision.

In effect, Mr Lilley's solution has been to borrow and refine the stakeholder pension proposals of Mr Frank Field, chairman of the social security select committee. He proposes that new entrants into the workforce should receive rebates on their national insurance contributions which would be compulsorily invested in private sector

money purchase pension schemes. On retirement, the state would make up any shortfall against the level of the basic pension arising from poor investment performance. This combines the cushion of a guaranteed minimum retirement income with a greater stake in national prosperity.

The difficulty of such a scheme for the public finances is that the rebates reduce the money going into the national insurance fund. Mr Lilley has cleverly addressed much of the problem by proposing to switch from granting tax relief on pension contributions to giving relief on actual pensions. This change in timing delivers a huge one-off cash flow benefit.

The snag, in terms of provision, is that the guaranteed minimum would be so low, after the changes since 1979, as to make the safety net safe only for ascetics. For the unemployed, there appears to be inadequate assistance. Judgement on the operations of the money purchase schemes must await further details.

Yet the scheme is moving in the same broad direction as Labour policy, holding out hope of a bipartisan approach. The difficulty for Labour is that bigger compulsory contributions would be needed to make it palatable, which brings the debate back to taxing and spending. But there is, at last, a real debate on pensions. That is well worth having.

Baaad baaan

Dolly, the Scottish lamb, has sent politicians into a panic all over the world. Many - alarmed that Dolly's cloning from an adult sheep could lead quickly to human clones - are calling for an outright ban on research into human cloning. On Tuesday President Clinton said no federal funds could be used for experiments in this field and he urged US scientists to observe a moratorium.

The public reaction in Dolly's homeland has been more muted than elsewhere in Europe, let alone in North America. Few UK politicians have spoken out on the issue, and yesterday the Commons Science Committee started an admirably low-key inquiry into cloning. The MPA made no inflammatory comments about the dangers of human clones. Instead, they concentrated on questioning members and staff of the Human Fertilisation and Embryology Authority about the meaning of the law, so as to prevent abuses while permitting research that would lead to valuable new medical techniques.

A sensible consensus seems to be emerging among legislators, regulators and scientists in the UK that hasty action to ban human cloning is unnecessary because there is no prospect of anyone doing any in the near future. Existing legislation should be reviewed to make sure that experiments to pro-

duce cloned people do not take place (there is some legal doubt about whether the 1990 Human Fertilisation and Embryology Act covers cloning from adult cells) but cloning research should be permitted under rigorous regulatory scrutiny.

There are several reasons why scientists might want to carry out such research, without dreaming of cloning a whole human being. An obvious one is to provide a new source of transplant tissues and organs. From skin to kidneys, that would be genetically identical to the recipient and therefore unlikely to be rejected. This would require the creation of embryonic cloned cells, which would be induced to develop into specific tissues rather than a complete foetus. Such a project may sound like science fiction - and it would certainly take many years to achieve - but it is a legitimate field of research, with great potential for improving human health.

If some research into human cloning is to be permitted, then it makes no sense to withhold government funding from the field. The US experience with embryonic research, which federal agencies do not fund for political reasons, shows that such a policy is counterproductive. The work takes place in private laboratories and the government loses both influence and knowledge of what is going on.

State retirement plan

The government's plans to privatise pensions avoid many of the risks involved in such a switch, write Edward Whitehouse and Martin Wolf

State pensions out of the government's hands

By Edward Whitehouse and Martin Wolf

State pensions are out of the government's hands

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Population estimates and projections											
Million	1992	1970	1991	1994	2000	2005	2010	2015	2020	2025	2030
Working age	51.0	51.2	52.5	54.4	55.2	56.0	57.2	58.8	60.4	62.8	65.2
Pension age	7.5	8.7	9.4	10.4	10.5	11.7	11.5	13.5	14.3	15.5	16.2
Support ratio	4.1	3.7	3.5	3.3	3.4	3.1	3.3	2.7	2.4	2.5	2.5

N.B. support ratio is number of working age population per pensioner age 65 for males and 60 for females only 2010 and for both sexes 2020

Estimated cost of basic pension with price and earnings indexing

£bn at 1994-95 prices	1994-95	2000-01	2010-11	2020-21	2030-31	2040-41	2050-51
Cost of basic pension	26.9	28.3	33.8	38.2	41.9	44.5	42.3
Earnings indexed	26.9	28.3	33.8	38.2	41.9	44.5	42.3
N.B. 1.5% real earnings growth assumed							
SERPS cost	1.8	2.2	2.4	2.5	2.6	2.7	2.8
N.B. 1.5% real earnings growth assumed							
Total	28.7	30.5	36.2	40.7	44.5	47.2	45.1
(Basic pension price indexed)							

Projected number of contributors and pensioners

	2000	2010	2020	2030	2040	2050
Contributors	22.7	24.0	24.6	23.9	23.6	22.3
Pensioners	11.0	12.4	12.4	14.7	15.7	16.0
Contributors/pensioners ratio	2.1	1.9	2.0	1.6	1.5	1.4

N.B. Pensionable age is 65 for men and 60 for women until 2010, 65 for both sexes 2020

Source: Government Actuary's Department

Pension holders 1992-93

Income (£)	All	Men	Women
0-5,000	800	370	430
5-10,000	1,450	720	730
10-15,000	1,225	590	635
15-20,000	635	310	325
Over 2,000	365	170	195
All	4,475	2,810	1,670

Source: Personal Pension Statistics

Source: Social Security Statistics 1995

are, by contrast, like pyramid

excessive administrative

The government has made several

criticism. On the transition

arrangements, for example, it is

clear that the burden will be

spread over several generations

rather than requiring one generation

of younger workers to pay

both their current national insurance

and the £9 and 5 per cent

contribution on top.

Which generations are affected,

however, will depend on how the

national insurance rebates are

financed. If they are paid out of

general taxation, part of the

cost of transition is paid for by

older generations. If, less satisfactorily,

the government borrowed to

finance them, pension liabilities

would be passed to subsequent

generations.

The fiscal cost of funding the

future pensions is further offset

by an ingenious change in the

pensions tax regime. The new

generation pensioners will not be

able to deduct contributions to

any plan, including existing

personal and occupational pensions,

from their income tax. Instead

their pensions will be tax-free. By

bringing forward the revenues

from deferred taxation, the government

will offset much of the cost of

transition cost.

The rebate, with the tax

changes, is expected to add a

cumulative £160m a year to public

spending. So spending would be

£320m higher after two years,

£480m after three and so on, until

it would reach a peak of £7bn

around 2040. But this is only 4%

per cent of forecast gross domestic

product - a negligible sum. Thereafter,

the savings on basic state pension costs would start to

feed through as new generation pensioners retire.

Over the very long term, the government would be slightly

better off from this change, because the double tax advantage

of pensions lump sums - tax relief on contributions and no tax

on withdrawal - would be eliminated. Extra tax would be collected

from people who are higher-rate taxpayers in their working life who could no longer

claim tax relief and are likely to be lower- or basic-rate taxpayers

in retirement.

For people paying the basic rate both during work and retirement,

there would be little effect on overall tax bills. But current

French company's behaviour. Renault, he insists, did not

comply with EU laws on worker consultation. Perhaps it's all too

close to home?

Safe soccer

Tough decisions await

Christopher Meyer, former press

secretary to prime minister John

Major, who becomes Britain's

ambassador in Bonn today.

While Germany struggles with

economic and monetary union,

Meyer is wrestling over which

football team to support. Back

home he supports lowly

Brighton, but if he wants to

strengthen Anglo-German

relations he could opt for FC

Kaiserslautern - the team

favoured by chancellor Helmut

Kohl. The worry is that this

selection strategy could prove

short-term, especially if Kohl

decides not to contest next

year's federal elections.

Democratic Party leader Oskar

Lafontaine is said to support FC

Saxbrücken, but the club plays

in a regional league, hardly

important enough to merit

amb

Rules to counter BSE flouted, say inspectors

Britain is accused over abattoir hygiene report

By George Parker, Political Correspondent

The British government was last night accused of suppressing a hard-hitting report by its own hygiene inspectors which revealed chronic lapses of hygiene in British abattoirs.

The report found that rules designed to counter the spread of BSE - or mad cow disease - to humans were being flouted and warned of "major contamination" of carcasses by animal faeces.

The report was due to be made public in March last year, the same month as UK ministers first admitted the possible link between BSE and CJD, its human equivalent. However, members of the government inspection team, which visited every abattoir in Britain, say they were told by officials at the UK's Ministry of Agriculture to water down the report. When they refused, the decision was taken not to publish.

European Union member states will be interested to

learn the extent to which British abattoirs were failing to prevent potentially dangerous bovine offal from reaching the food chain at the height of the BSE crisis.

Mr Bill Swann, the editor of the report, said: "I felt the report would have been of enormous benefit if it had been published."

The ministry said copies of the report were sent to abattoirs in June 1996, and were available to the public from the Meat Hygiene Service - a government agency.

Mr Swann, a veterinary surgeon, was employed in 1996 by the Meat Hygiene Service to lead a full audit of the British meat industry. The work was of vital importance to the Ministry of Agriculture, which was growing increasingly concerned about abattoir standards during 1996.

All slaughterhouses were ordered to remove specified bovine offal from cattle carcasses, to reduce the possibility of BSE transferring to humans, and there was grow-

ing evidence that the rules were being broken.

Mr Swann's team found that "spinal cord was not fully removed from all bovine carcasses" and that the majority of plants did not mark waste containers "unfit for human consumption".

The team's findings on animal faeces were equally alarming. The faeces harbour the deadly *e-coli* bacteria, which has been responsible for food poisoning incidents in Scotland that have claimed 20 lives in the past four months, with separate outbreaks in Lanarkshire and Tayside.

Mr Swann said he believed the 54-page report was not published because of the damage it could do to the meat industry.

Mr Nigel Griffiths, consumer affairs spokesman for the opposition Labour party, said: "Every other line is damning. If this report had not been suppressed, there is a high possibility that lives may have been saved."

Contamination alarm, Page 5

GM keen to expand in former Soviet Union

By Haig Simonian in Geneva

General Motors, the world's biggest carmaker, plans to expand in the former Soviet Union by concentrating on a few investments in the region's larger and more stable markets.

Mr David Herman, chairman of GM's Opel brand, said the group had cancelled consideration of all other projects in the former Soviet Union, including possible ventures in oil-rich Kazakhstan.

It plans instead to sign a partnership deal with Avtoaz, Ukraine's biggest car company, by the middle of the year, and to continue talks with Avtoaz, the big Russian carmaker behind the Lada brand. The group is already involved in Russia through an investment in the Russian republic of Tatarstan.

However, GM's negotiations with Avtoaz and the Kiev government may be scuppered by Daewoo, the fast growing South Korean industrial group, which crossed swords with GM last year in Poland when it won control of the FSO car company.

Mr Herman, who has responsibility for the Ukrainian talks, said a deal with Kiev and Avtoaz was a priority for the US group. Mr Jack Smith, GM's chairman, has told the negotiating team to "make every effort" to secure a deal, he said in an interview at the Geneva Motor Show.

GM took its first big step into the region last year with a joint venture to build Chevrolet Blazer sports utility vehicles with Elaz, a local carmaker, and the Tatarstan authorities. Mr Herman said GM would continue to develop this deal as well as expand its fledgling dealer chain in the former Soviet Union.

Ukraine is attractive to foreign car companies because of its 52m population. Avtoaz has a relatively modern plant, and is an established brand through its Tatra saloon, so the investment required by a foreign partner could be limited to between \$10m and \$20m, said Mr Herman.

Avtoaz, which has 12,000 employees, is keen to find a foreign partner to develop new models. Demand has fallen sharply in recent years. Production of the Tavria dropped to about 35,000 units last year and is believed to have declined further.

GM signed a protocol with the Ukrainian government earlier this year to suggest a rescue plan, which would include producing between 30,000 and 50,000 units of an Opel model, with rising local content.

US car sales in Japan, Page 4

THE LEX COLUMN

Defence Meccanica

If you cannot deal with the French, talk to the Italians. That is the message of GEC's decision to open negotiations with Italy's Finmeccanica. A combination of Britain's GEC-Marconi and France's Thomson-CSF might produce the greatest benefits of any European defence electronics tie-up. But, with France taking a nationalistic line, a link with Finmeccanica's Alenia subsidiary is a good second best.

Up to 25% of Marconi's turnover and 25% of Alenia's could be involved in a deal. Since they are in roughly the same businesses - radars, avionics and missile electronics - that points to pretty chunky cost savings through eliminating duplication. The financial upside could be even sweeter given that Alenia's margins are only half Marconi's 10 per cent.

But the implications of the talks are broader. First, a deal with Finmeccanica on defence electronics could be a prelude to a deeper relationship. Ansaldo, Finmeccanica's power engineering and transport business, could fit logically with GEC's GEC-Alsthom venture. Second, the talks are a further warning to the French about the dangers of pursuing a nationalistic line. Both the UK and Italy are more pragmatic about defence restructuring. The next challenge will be to bring in Germany; certainly, last week's decision by Siemens to put its defence electronics businesses up for sale is an opportunity for GEC. The risk to France is that, if it insists on controlling everything, it will be marginalised.

Greece/Turkey
The traditional rivalry between Turkey and Greece appears to be spreading into the financial arena. The two countries' stock markets are vying for the title of best performer so far in 1997. Despite setbacks last week, Greece is up 31 per cent in dollar terms, with Turkey, which led the initial charge, 22 per cent higher.

But the reasons behind these performances are very different. Turkey's run has been prompted by the announcement of an ambitious privatisation programme, starting with the state-owned telecoms operator. Investors have taken that as a signal that Turkey intends to transform itself into a more modern economy. Sadly, the fundamentals do not support this. Inflation is running just below 80 per cent and interest rates have breached 100 per

cent. Worse, a political battle has been shaping up between Turkey's Islamist-led government and the secularist military.

Greek equities, by contrast, look more soundly based. The economic picture is improving rapidly: inflation has dropped a full point to 6% per cent in three months, allowing cuts in interest rates. The new Socialist government has passed a fiscally responsible budget and faced down a farmers' strike. And earnings growth should hit 15 per cent this year, with many Greek companies expanding into the Balkans.

If Turkey can resolve its political difficulties amicably, that should give its market another boost. Until then, however, Greece is likely to run away with the Olympic honours.

T&N/Kolbenschmidt

At first sight it looks as if T&N has lost its long battle to win control of Kolbenschmidt, the German pistons manufacturer. Yesterday's news that Rheintal, a German conglomerate, is buying 25 per cent of Kolbenschmidt and wants a majority appears to leave the UK engineer stymied.

Far from it. T&N and Rheintal know each other well and are not direct competitors. The most likely outcome is that Rheintal will absorb Kolbenschmidt's small castings division and put the main pistons operation into some sort of joint venture with T&N. Properly structured, that should get around the competition authorities and still realise T&N's dream of becoming the world's largest pistons maker. A joint venture would also be cheaper

than a full takeover, allowing T&N to pursue bolt-on acquisitions elsewhere in the world.

UK pensions

When a government thinks it is win votes by offering tax cuts in the middle of the next century, it is in a desperate. But the mere fact that Britain's Conservatives are unlikely to implement their plans to privatise pensions should not detract from their merit. The scheme is an ingenious mechanism for gradually weaning pensioners off the state, while keeping compulsory saving to the minimum. Labour would do well to examine seriously if it wins power in May, as would other countries with or bigger pension time-bombs.

The government's claim that a scheme will eventually cut public spending by £40bn a year may seem good news for financial markets. But look at the fine print: it is clear that the scheme involves either higher borrowing or higher taxes for 45 years. After that the savings will dribble in or another 20 years - achieving a fruition only when all today's year-olds are dead. Even then, a £40bn figure is somewhat misleading: it is a gross figure, which does not take into account the cost of continuing rebates from national insurance contributions or lost revenue. So there is not much to excite the gilt market.

What about equities? Here it is possible to be a touch more optimistic. The initial impact is minimal: less than £40bn would flow in these new pensions in the first year. But the sums would mount rapidly. Moreover, it is possible that privatising pensions would enhance individuals' sense of ownership, giving a welcome boost to the equity culture. People may even save more, but do not count on it.

Such a scheme would be beneficial for the savings industry. Winners would be those able to develop cheap and cheerful products. The trend from active management to index-tracking would probably accelerate, as would the shift from defined benefit pensions to defined contributions.

All this is good, responsible at for which the government deserves credit. But it is hard to see it doing more than a few votes.

Additional Lex note on B. Page

Thai bank officials sacked over bungled prosecution

By William Barnes in Bangkok

Thailand's government yesterday sacked three senior central bank officials - including a deputy governor - over delays that led to charges being dropped in an alleged banking scandal.

A row erupted in parliament last month when the public prosecutors' office dropped charges against Mr Krirkiat Jitichandana, former president of Bangkok Bank of Commerce, and two advisers, alleged to have brought BBOC to its knees by making irrecoverable loans worth up to \$2bn.

The central bank was ultimately blamed for the prosecutors' decision because it failed to produce evidence within the one-year statute of limitations.

The dismissals are the latest controversy to hit the central bank, which has been at the heart of a long debate over its independence. Mr Vichit Supinit was forced to resign as governor last July following criticism that he failed to protect the bank from political interference, ran a vendetta against a personal rival and failed to react sooner in checking BBOC's slide into trouble.

The sackings also came as the central bank and ministry of finance struggle to prop up a fragile financial system. This week, the authorities announced emergency measures following Thai Danu Bank's central bank-approved takeover of Finance One, the largest Thai finance house with \$3.8bn in assets. Last

year, the central bank intervened to save BBOC, but in January it postponed indefinitely the auction of its 65 per cent stake in the bank. The central bank will take on an estimated \$2bn in debt and hire outside managers to run the commercial bank as a government-owned institution.

The central bank has been unable to find a way to sell the bank without using taxpayers' money to put it on a firm footing. Likely bidders said they would offer only token sums if the government did not act to write off the bank's debt - a politically unpalatable move at a time when the financial sector is under strain. The central bank said no auction would take place until BBOC was profitable again.

British pensions scheme

Continued from Page 1

was careful yesterday to keep open the option of transferring some state pension obligations to the private sector.

The scheme, which bears some similarities to Chile's restructuring of pensions in 1981, would take a generation and more to work through as the system is phased in and the old scheme continues for the existing workforce.

Mr Peter Lilley, social security secretary, said that assuming average earnings

over 44 years and a 4.25 per cent real rate of return on investments, individuals could expect a £130,000 (\$211,900) fund when they retire, for a pension of £175 a week in today's prices.

The change would mean huge further growth for UK pension funds which already hold 30 per cent of the UK stock market. The UK already has \$650bn invested in pension funds, more than the rest of the EU put together, in part the result of opting-out of the state earnings-related scheme.

Smoking

Continued from Page 1

its ability, ultimately, to win cases and has no intention of proposing a settlement." But it would be prepared to "evaluate proposals from third parties to provide relief from its current and future suits".

In a bid to break the deadlock, the industry last month hired two top Washington lobbyists Werner Liptart Bernhard McPherson & Hand, and Barbour Griffith & Rogers, apparently to prepare the ground for such a settlement.

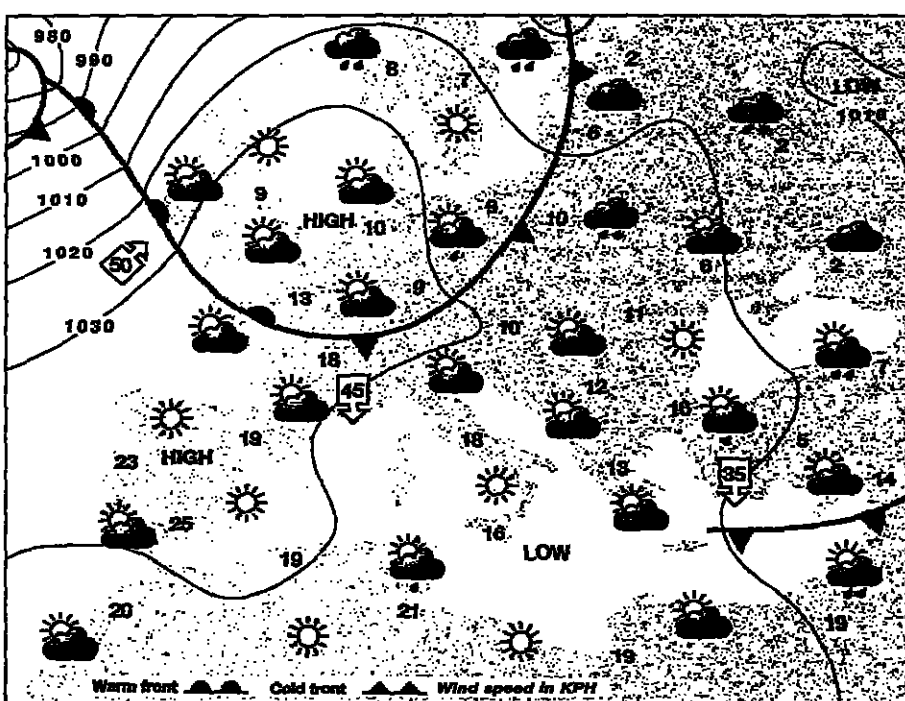
FT WEATHER GUIDE

Europe today

Western Europe will be generally mild but unsettled. There will be cloud and rain from Finland, across Germany towards northern France. The Benelux will have morning fog or low cloud which will clear quickly. The UK will be calm and sunny in the east and partly cloudy and rather windy in the west. The Baltic states will start sunny and fine, but cloud will thicken during the afternoon, followed by some rain. The Mediterranean will be sunny and mainly dry. Showers are likely in northern Italy and Turkey. Eastern Europe will be unseasonably cool with showers developing near the Black Sea.

Five-day forecast

High pressure will gradually build over Europe, keeping temperatures in the west above seasonal levels. Eastern Europe will continue to be cool but mainly dry. Scandinavia and the Mediterranean, except for the Iberian peninsula, will be unsettled and rather windy.



TODAY'S TEMPERATURES

Madrid	12	Barcelona	14	Paris	10	London	9
Berlin	8	Amsterdam	10	Brussels	11	Frankfurt	12
Geneva	12	Zurich	11	Munich	10	Vienna	11
Stockholm	10	Helsinki	11	Tallinn	12	Riga	13
Sofia	14	Bucharest	15	Warsaw	12	Prague	11
Bratislava	12	Belgrade	13	Sarajevo	14	Zagreb	15
Ljubljana	13	Trieste	14	Venice	15	Rome	16
Naples	17	Milan	16	Bologna	17	Genoa	18
Lisbon	18	Madrid	19	Seville	20	Barcelona	21
Valencia	22	Bilbao	23	Basque	24	Porto	25
Oporto	26	Lisbon	27	Madrid	28	Seville	29
Barcelona	30	Valencia	31	Bilbao	32	Basque	33
Porto	34	Oporto	35	Lisbon	36	Madrid	37
Seville	38	Barcelona	39	Valencia	40	Bilbao	41
Basque	42	Porto	43	Oporto	44	Lisbon	45
Madrid	46	Seville	47	Barcelona	48	Valencia	49
Bilbao	50	Basque	51	Porto	52	Oporto	53
Lisbon	54	Madrid	55	Seville	56	Barcelona	57
Valencia	58	Bilbao	59	Basque	60	Porto	61
Oporto	62	Lisbon	63	Madrid	64	Seville	65
Barcelona	66	Valencia	67	Bilbao	68	Basque	69
Porto	70	Oporto	71	Lisbon	72	Madrid	73
Seville	74	Barcelona	75	Valencia	76	Bilbao	77
Basque	78	Porto	79	Oporto	80	Lisbon	81
Madrid	82	Seville	83	Barcelona	84	Valencia	85
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Oporto	98	Lisbon	99	Madrid	100	Seville	101
Barcelona	102	Valencia	103	Bilbao	104	Basque	105
Porto	106	Oporto	107	Lisbon	108	Madrid	109
Seville	110	Barcelona	111	Valencia	112	Bilbao	113
Basque	114	Porto	115	Oporto	116	Lisbon	117
Madrid	118	Seville	119	Barcelona	120	Valencia	121
Bilbao	122	Basque	123	Porto	124	Oporto	125
Lisbon	126	Madrid	127	Seville	128	Barcelona	129
Valencia	130	Bilbao	131	Basque	132	Porto	133
Oporto	134	Lisbon	135	Madrid	136	Seville	137
Barcelona	138	Valencia	139	Bilbao	140	Basque	141
Porto	142	Oporto	143	Lisbon	144	Madrid	145
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Barcelona	210	Valencia	211	Bilbao	212	Basque	213
Porto	214	Oporto	215	Lisbon	216	Madrid	217
Seville	218	Barcelona	219	Valencia	220	Bilbao	221
Basque	222	Porto	223	Oporto	224	Lisbon	225
Madrid	226	Seville	227	Barcelona	228	Valencia	229
Bilbao	230	Basque	231	Porto	232	Oporto	233
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Barcelona	246	Valencia	247	Bilbao	248	Basque	249
Porto	250	Oporto	251	Lisbon	252	Madrid	253
Seville	254	Barcelona	255	Valencia	256	Bilbao	257
Basque	258	Porto	259	Oporto	260	Lisbon	261
Madrid	262	Seville	263	Barcelona	264	Valencia	265
Bilbao	266	Basque	267	Porto	268	Oporto	269
Lisbon	270	Madrid	271	Seville	272	Barcelona	273
Valencia	274	Bilbao	275	Basque	276	Porto	277
Oporto	278	Lisbon	279	Madrid	280	Seville	281
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ROBERT SHANDLER, founder of Kyocera

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Week 10

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IN BRIEF

Foncier reprieve prospects fade

The prospects of a partial reprieve for Crédit Foncier de France, the specialist property bank, were jeopardised last night when a rival lending institution indicated it would no longer be bound by its proposed rescue offer. Page 16

Skandia posts flat profits

Skandia, Sweden's biggest insurance group, reported flat profits in 1996 despite strong growth in its non-life and life earnings. Page 16

Thomson-CSF back in black

After three years of net losses, Thomson-CSF, the French state-controlled electronics company, reported a 1996 net profit of FF745m (\$129.22m). Page 16

Continental climbs 24%

Continental, the world's fourth-largest tyre maker, said net profits climbed 24 per cent from DM155.2m to DM192.5m (\$112.6m) in 1996, bolstered by new products and an extensive restructuring over the past few years. Page 17

PBL hurt by weakness in advertising

Publishing and Broadcasting (PBL), the listed Australian media group controlled by Mr Kerry Packer, blamed a soft advertising market for a 31 per cent drop in first-half profits. Page 18

Paribas plans 25% increase in US

Paribas, the French financial group, plans a 25 per cent increase in its US investment banking workforce this year in a move to strengthen its position in capital markets, derivatives and corporate banking. Page 19

Barneys creditors reject \$240m offer

A \$240m offer to buy Barneys, the bankrupt New York retailer, was rejected by the company's unsecured creditors as too low. Page 19

US charge curbs BAT

BAT Industries disappointed the market yesterday when it reported that 1996 profits had been hit by a \$180m (\$280.8m) provision for US environmental claims at its Eagle Star insurance subsidiary. Page 21; Lex, Page 16

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Chief price changes yesterday

COMPANY (GBP)	PRICE	CHANGE	COMPANY (GBP)	PRICE	CHANGE
Admiral	400	+22	Admiral	400	+22
Air Liquide	130	+1.30	Air Liquide	130	+1.30
Airtel	1200	+21	Airtel	1200	+21
Alcatel SEL	78	+1.25	Alcatel SEL	78	+1.25
BAT Industries	24	+22.50	BAT Industries	24	+22.50
BBDO	22	+0.25	BBDO	22	+0.25
BBC	22	+0.25	BBC	22	+0.25
BFGM	26	+0.25	BFGM	26	+0.25
BTR	21	+0.25	BTR	21	+0.25
Banco Santander	16	+0.25	Banco Santander	16	+0.25
Bendal	15	+0.25	Bendal	15	+0.25
Bank Hypo Alpin	17	+0.25	Bank Hypo Alpin	17	+0.25
Bank Leumi	17	+0.25	Bank Leumi	17	+0.25
Barney's	19	+0.25	Barney's	19	+0.25
Born	18	+0.25	Born	18	+0.25
British Biotech	21	+0.25	British Biotech	21	+0.25
British Telecom	16	+0.25	British Telecom	16	+0.25
Burdick	20	+0.25	Burdick	20	+0.25
CVG	20	+0.25	CVG	20	+0.25
CVRD	20	+0.25	CVRD	20	+0.25
Cadbury Schweppes	22	+0.25	Cadbury Schweppes	22	+0.25
Canal Plus	16	+0.25	Canal Plus	16	+0.25
Chrysler	4	+0.25	Chrysler	4	+0.25
Congress Financial	21	+0.25	Congress Financial	21	+0.25
Continental	17	+0.25	Continental	17	+0.25
CoreStates	21	+0.25	CoreStates	21	+0.25
Credit Suisse	15	+0.25	Credit Suisse	15	+0.25
Crédit Foncier	16	+0.25	Crédit Foncier	16	+0.25
Crédit Immobilier	16	+0.25	Crédit Immobilier	16	+0.25
Crédit Lyonnais	15	+0.25	Crédit Lyonnais	15	+0.25
Crysalis Int'l	20	+0.25	Crysalis Int'l	20	+0.25
Delcity	8	+0.25	Delcity	8	+0.25
Danfoss	21	+0.25	Danfoss	21	+0.25
Diction Concepts	19	+0.25	Diction Concepts	19	+0.25
Dongung Chemical	18	+0.25	Dongung Chemical	18	+0.25
EDS	8	+0.25	EDS	8	+0.25
Eurogold	28	+0.25	Eurogold	28	+0.25
Federal Nat Mortgage	24	+0.25	Federal Nat Mortgage	24	+0.25
Finmeccanica	1, 2, 14	+0.25	Finmeccanica	1, 2, 14	+0.25
Ford	4	+0.25	Ford	4	+0.25
GEC	2, 14	+0.25	GEC	2, 14	+0.25
GEC-Marconi	1	+0.25	GEC-Marconi	1	+0.25
General Motors	14, 4	+0.25	General Motors	14, 4	+0.25
Grama	19	+0.25	Grama	19	+0.25
HOPEL	6	+0.25	HOPEL	6	+0.25
Honda	4	+0.25	Honda	4	+0.25
ICI	21	+0.25	ICI	21	+0.25
Innot	26	+0.25	Innot	26	+0.25

Chief executive says control of rising operating costs is priority

Credit Suisse first loss heavier than forecast at \$1.7bn

By William Hall in Zurich

Credit Suisse, the largest Swiss bank, yesterday announced a heavier than expected net loss for 1996 of SF2.59bn (\$1.7bn). The deficit, first in the group's 140-year history, was about SF300m bigger than forecast in December when the group announced extra provisions for loans.

Total operating income rose 17 per cent to SF2.28bn, but while that growth was slightly better than at rival Union Bank of Switzerland, analysts focused on the 20 per cent rise in operating expenses to SF2.33bn.

Mr Lukas Mühlemann, the new chief executive, said the rising costs were "worrying", and that controlling them was now the priority.

Net interest income rose 6 per cent to SF3.49bn, commissions and service fees went up 18 per cent to SF4.94bn, and trading income rose by 33 per cent to SF2.90bn.

Credit Suisse shares, which have climbed 15 per cent this year, initially rose from Tuesday's closing price of SF158.5 but at the close of trade were

little changed at SF158.25

The deeper than expected losses resulted in part from a decision not to create a tax credit of SF170m in the US following a reorganisation of the bank. In addition the bank allocated SF196m to reserves for general banking risks.

Mr Mühlemann, who made his name by restructuring Swiss Re, the world's second biggest reinsurer, indicated he would not depart from the restructuring strategy announced last year by Mr Rainer Gut, Credit Suisse's chairman.

However, he did split out the contributions of the four business units for the first time and outlined their profit targets. Credit Suisse First Boston, the investment bank, was the biggest contributor last year, earning SF1.87bn on revenues of SF6.47bn and capital of SF2.6bn.

Credit Suisse, the domestic retail business, reported a pre-tax loss of SF296m on income of SF2.7bn and capital of SF2.4bn. Credit Suisse Private Banking made pre-tax profits of SF1.36bn on income of SF3.8bn and SF2.2bn of capital,

and Credit Suisse Asset Management earned SF195m on income of SF260m and capital of SF400m.

Mr Mühlemann said that within the group's overall target of an average return on equity of 15 per cent, the domestic business should earn between 10 and 12 per cent, and CSFB in excess of 15 per cent. The target for private banking was between 40 and 50 basis points on funds under management and between 12 and 15 basis points in the case of asset management.

The group has total equity of SF15.6bn, total capital of SF23.2bn, and total assets of SF234bn. Its Tier One capital is 8 per cent and total BIS capital ratio is 11.9 per cent.

After allowing for a one third rise in normal provisions, to SF1.25bn, extra depreciation, and a rise in the group tax charge, net profit before minorities fell by 1 per cent to SF1.79bn.

Extraordinary profit on the sale of its stake in Electrowatt helped offset the SF5.4bn of extraordinary expenses for restructuring and cleaning up the loan portfolio.



Credit Suisse's new chief executive Lukas Mühlemann said the bank's rising costs were "worrying" and that controlling the increase in operating expenses was now the priority

Société Générale fined for attempt at poaching

By Andrew Jack in Paris

Société Générale, one of France's largest banks, was yesterday condemned by a Paris court for acting unfairly in an attempt to win business from its state-owned rival Crédit Lyonnais.

The Paris commercial court fined Société Générale a symbolic FF1 with FF50,000 (\$8,700) in costs for writing to Crédit Lyonnais customers to denigrate their bank and encourage them to move their accounts.

The decision highlights the increasingly desperate measures by French banks in response to intense competition as well as the continued bitterness between the two banks.

A number of Société Générale agencies targeted their rival's clients by collecting the names and addresses of Crédit Lyonnais customers from the information provided on cheques and standing orders they handled.

Credit Lyonnais says about 100 of its customers notified it of the letters, which included phrases such as "in an uncertain economic environment, perhaps you have the feeling that your bank has difficulties... in giving you really competitive offers".

Another letter said: "[some banks] are judged to be virtually bankrupt... In the face of this sad reality, some of their clients are legitimately asking questions, others are concerned."

In its defence, Société Générale claimed the initiative was taken by individual agencies and not by headquarters, and that the campaign was not aimed only at Crédit Lyonnais customers but those of other financial institutions.

It said its rival's decision to sue was an effort to attract media attention after Société Générale had complained to the European Commission about a financial restructuring of Crédit Lyonnais.

The French data protection agency carried out an inquiry at Société Générale last year, following which the bank agreed to eliminate the addresses of its rivals' customers from its computer systems, and the country's banking association requested its members to cease similar practices.

Bock to cut last of his links with Lonrho

By Andrew Taylor, Construction Correspondent

Dieter Bock, former chief executive of Lonrho, is to sever his remaining links with the UK conglomerate after yesterday announcing a property deal to team up with Peter Munk, the Canadian financier.

Mr Bock is selling about half his European commercial property assets to Trizec-Hahn, north America's second largest publicly quoted property company.

Mr Munk, a 69-year-old born in Hungary, owns 52 per cent of the voting shares and 9.6 per cent of the equity of Trizec-Hahn.

Mr Bock will take up a new job as Trizec-Hahn's European president. He intends to resign as a director and non-executive chairman of Lonrho at the company's annual meeting later this month.

Trizec-Hahn was created last year when Mr Munk restructured his Horsham conglomerate by merging it into its 48 per cent owned Trizec Corporation leaving the combined group with assets of more than US\$6bn and current market capitalisation of more than US\$3bn.

The group also owns 16.7 per cent of Barrick Gold Corporation, the world's second largest gold producer. Mr Bock will now own 4 per cent of Trizec-Hahn as part of that company's US\$1.47m deal to buy five UK and German development projects from Advanta Management which is controlled by Mr Bock.

His departure from Lonrho ends a dramatic four year involvement during which he ousted Lonrho's founder, Mr Tiny Rowland, and began the process of dismantling Britain's most diverse conglomerate.

Last October Mr Bock sold his 18.8 per cent stake in Lonrho to Anglo American, the South African mining group, and surrendered the chief executive's role to Mr Nicholas Morrell. Anglo's purchase is now being investigated by the European Commission.

The developments Trizec-Hahn is buying include number 1 Poultry, one of the City of London's most prestigious office addresses.

Four German development sites are being purchased. Two are proposed mixed office and retail schemes in Berlin worth DM600m (\$355m). A DM120m scheme is planned at Dresden and a residential development on the Baltic coast.

T&N considers German alliance

By Tim Burt and Michael Lindemann in London

UK group hopes move may lead to global pistons joint venture

T&N, the UK engineering group which yesterday announced pre-tax losses of almost £30m (£36.5m), is considering forming a strategic alliance to create the world's largest automotive pistons manufacturer.

Industry observers said it might form a partnership with Rheinmetall, the German industrial conglomerate, which has acquired a 25 per cent stake in Kolbenschmidt, the German pistons manufacturer.

T&N has been seeking Kolbenschmidt for more than two years. Although T&N's attempts to buy a strategic stake in the pistons group have been rejected by the German cartel authorities, it is understood to regard Rhein-

metall's intervention as a possible pre-cursor to a global pistons joint venture.

The UK group, which already has options involving 24.99 per cent of Kolbenschmidt, refused to confirm the extent of any talks with Rheinmetall. In its results statement, however, it said: "Discussions have commenced with a leading German industrial company with the aim of progressing the group's position." Rheinmetall, which aims to take management control of Kolbenschmidt by the year end, also said such discussions would take place - while Kolbenschmidt itself said they were already under way.

If the two companies formed reserves are available". If so, T&N investors should receive an unchanged payout of 6p for 1996.

In Germany, meanwhile, Rheinmetall said the proposed acquisition of the Kolbenschmidt stake would significantly enlarge its automotive components business. "We will become a global player in automotive systems. That is the strategic purpose of the deal."

The Düsseldorf-based group refused to say how much it had paid for the Kolbenschmidt stake but it is thought that the 24.99 per cent holding is worth about DM180m (\$106.5m). That stake was held by Commerzbank on T&N's behalf, but the UK group's options expired last year.

T&N results, Page 22
Lex, Page 14

Bandai to boost output of cult virtual chick toy

By William Dawkins in Tokyo

Bandai, Japan's largest toy maker, is planning a five-fold increase in monthly production of its latest game, a pocket-sized egg with a virtual chicken, to keep pace with the bird's unexpected elevation to cult status.

Bandai has sold 1.35m tamagotchi or "cute little egg" toys since its launch last November. Demand has been so strong that long queues form outside Japanese shops and the toys can trade on the black market for up to 25 times their recommended retail price of ¥1,980 (\$16.40).

Bandai said yesterday that more than 5m extra tamagotchi would be made at its Chinese plant by the end of May, lifting average monthly output from 330,000 to 1.66m and cumulative production to 6.5m units. It asked customers to "be patient" and not overpay for tamagotchi on the black market.

Bandai's tamagotchi is the latest and most popular computer role-playing game, based on parenting themes, to hit the domestic market in recent years. Its popularity has been the subject of sociological comment in the Japanese media.

The plastic egg has a small liquid crystal display on which a chick hatches. Buttons are pressed to feed, clean and play with it. If bored, underfed or overfed, it emits a piercing noise - even in the middle of the night - mutates into a tetchy old man and dies. If well cared for, it ruffles its feathers, hops about, and lives happily for 10 days or so.



Virtual toy, real success: Bandai's 'cute little egg'

Bandai expects to sell 13m tamagotchi by March 1998, but declined to estimate the impact on earnings. In January, Bandai forecast a ¥2bn recurring loss - before tax and extraordinary items - for the year to March, rather than the ¥22bn profit it had expected. Soon after forecasting its plunge, Bandai received a merger approach from Sega, the electronic games group, to be completed in October.

Executives said they had misread market trends. They had stepped up production of expensive character toys, when demand for these was flat. The fastest-growing segment of the Japanese market has been for cheap pocket-toys, such as the tamagotchi.

The group is considering a further increase in production after May to supply the US market, where the tamagotchi is expected to hatch from July. European sales are planned after the US.

Toy patents, Page 8

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COMPANIES AND FINANCE: EUROPE

Skandia flat after shake-up charge

By Hugh Carnegie
in Stockholm

Skandia, Sweden's biggest insurance group, yesterday reported flat profits in 1996 in spite of strong growth in its non-life and life earnings. Chief culprit was a total charge of SKr2.2bn (\$288m), mainly to cover restructuring costs in its non-life business.

The group's operating profit rose just 1 per cent from SKr2.38bn in 1995 to SKr2.39bn. A sharp increase

in tax charges left net profits down from SKr1.6bn to SKr1.1bn, with earnings per share declining from SKr16 to SKr11.

The dividend was raised from SKr2 a share to SKr2.75. But the company warned that coming levels of investment would limit dividends in the short term.

Skandia's shares fell SKr3 to close at SKr225 following the news.

The main factor holding back profits was a SKr1.4bn restructuring charge aimed

at boosting profitability in the non-life operations. Although non-life and reinsurance earnings soared 54 per cent from SKr2.3bn to SKr3.5bn, this was entirely because of a big increase in investment income, which more than doubled to SKr3.1bn.

Stripping out investment returns, the so-called technical result in non-life and reinsurance tumbled from SKr1bn to SKr403m, a 62 per cent reverse caused chiefly by a spate of big claims in

the first half. Claims levels returned to more normal levels in the second half - but the overall weakness of the non-life business was underlined by a 7 per cent fall in premiums from SKr24bn to SKr22.5bn.

Mr Lars-Eric Petersson, chief executive, said the measures taken in the non-life area - in markets as diverse as the Nordic region, Italy and the US - would yield annual savings of SKr400m in the long term. The life and unit-linked

operations continued to be the growth engine. Grouped under the AFS subsidiary, profits from these operations jumped 41 per cent from SKr1.1bn to SKr1.5bn, while premiums grew from SKr26.7bn to SKr36.4bn.

Storebrand, the Norwegian insurer, is taking steps to improve competitiveness and productivity, including cutting 450 staff this year. Operating profits in 1996 fell from NKr4.2bn to NKr4.1bn (\$688m). Earnings per share fell from NKr4.94 to NKr4.10.

BT lifts stake in Airtel to 15.8%

By David White in Madrid

British Telecommunications has raised its stake in Airtel, the Spanish mobile telephone company, under a deal with Banco Santander which is expected to open the way to further expansion by the UK operator in Spain.

The deal, which includes the purchase by BT of Banco Santander's 50 per cent stake in a Spanish joint venture, BT Telecomunicaciones, is believed to be worth about \$200m.

It follows moves by BT to build up mobile telephone interests in France, Germany, Norway and India.

BT is buying most of Banco Santander's shareholding in Airtel, increasing its stake from 7.3 per cent to 15.8 per cent. This makes it one of the two main partners in the Spanish company, alongside AirTouch of the US, which has 16.7 per cent.

Airtel, launched in late 1995, accounts for about a third of the fast-growing Spanish mobile telephone market, in competition with the Telefonía group. It said yesterday it expected to cut its losses by about two-thirds this year to some Pta10bn (\$65m), on turnover sharply up at Pta130bn.

Its other shareholders are Spanish banking and industrial interests. Banco Santander said it would hold on to its remaining 5.5 per cent stake "for the time being".

BT was always expected to assume full control of BT Telecomunicaciones, a data transmission company, after an initial start-up period.

The separation from Banco Santander leaves BT free to launch a bid for the forthcoming privatisation of Retevisión, the company which is to become Spain's second basic telephone operator. BT said yesterday it was keeping an open mind about whether or not it would compete in the privatisation, expected in May.

EUROPEAN NEWS DIGEST

Reprieve for CFF in jeopardy

The prospects of a partial reprieve for Crédit Foncier de France, the specialist property bank, were jeopardised last night when a rival lending institution indicated that it would no longer be bound by its proposed rescue offer. Mr Jacques Mimmi, managing director of Crédit Immobilier de France, told the Agence France Presse news agency that his group was resuming its "total freedom" for development and would no longer take into account its offer for Crédit Foncier.

He said the group would soon start to hire "dozens" of new staff after freezing recruitment for nine months while awaiting acceptance of its CFF proposals to be accepted. The move, which had been hinted at by the chairman last month, will come as a considerable blow for CFF, since it had been the only serious offer to help preserve jobs and keep the bank operating.

Crédit Immobilier, a mutualist home-loan institution, agreed under government pressure last year to a plan under which it would hire 1,500 of CFF's staff and take on the management of its PAFs, or low-income housing loans. However, in the wake of CFF's worsening financial troubles, the state - which appointed top management but had no shares - launched a takeover last autumn, with the idea of transferring nearly half the staff to Crédit Immobilier, and gradually winding down those activities which were not handed over to its rival.

Andrew Jack, Paris

Air Liquide improves

Air Liquide, the French industrial gases group, yesterday reported a modest 4.2 per cent improvement in consolidated net earnings from FF2.66bn to FF2.77bn (\$400m). It said its progress had been limited by the "shaggy" European economic environment, particularly in France and Germany. The group nonetheless described 1996 as a year of "remarkable commercial successes" in which important long-term contracts had been signed, resulting in an acceleration in industrial investment. The return on these investments, coupled with new efforts to improve productivity, would contribute to growth. Sales rose 6.8 per cent from FF32.2bn to FF34.4bn, with weak European growth offset by sustained activity in the US and south-east Asia.

David Owen, Paris

Philips board member quits

Philips, the Dutch electronics group, is to lose another of its old guard with the early retirement of Mr Jan Tollenaar, who joined the company in 1962 and has been on the board only since last May. Before that he headed its Sound & Vision unit, which has suffered the brunt of cuts to operations in television sets, video recorders and audio products since the appointment of Mr Cor Boonstra as Philips chairman.

Three weeks ago, when unveiling a slide into the red for 1996, Mr Boonstra was forced to deny boardroom unrest over his restructuring measures. Two days earlier Mr Jan Timmer, his predecessor, resigned from the supervisory board to which he had been elevated after handing over the executive reins last October. Along with the results came an announcement that Mr Frank Carruba, another managing board director, was leaving at the end of his contract to return to the US. Philips said yesterday: "The decision to retire is based on personal considerations of Mr Tollenaar", who turns 60 this year.

Gordon Cramb, Amsterdam

Thomson-CSF back in black

By David Buchanan in Paris

Thomson-CSF, the French state-controlled electronics company, yesterday reported a 1996 net profit of FF745m (\$123.2m) after three years of net losses. The return to the black comes as the group prepares for privatisation.

The turnaround was less dramatic than it appeared, however, because Thomson-CSF no longer has the burden of its 16.8 per cent stake in the loss-making bank Crédit Lyonnais, which pushed it into the red between 1993-95. The government agreed last year to take this stake off Thomson-CSF's hands.

However, Thomson-CSF still managed to lift pre-tax

operating profit by 5.6 per cent last year, to FF2.07bn. As a share of turnover, this was 5.7 per cent compared with 5.5 per cent in 1995. This was in spite of restructuring costs of FF748m last year, up from FF663m.

This improvement is likely to encourage the government to seek a higher price for the company than the FF18bn-FF19bn which the Lagardère and Alcatel groups gave it in their bids in last year's aborted privatisation of the whole Thomson group.

The government is now selling its 58 per cent stake in Thomson-CSF separately from the Thomson Multimedia consumer electronics company.

The latter is to stay in state hands for a while, partly because later today it is expected to report a net loss, after provisions, of around FF30m.

Thomson-CSF yesterday announced a net dividend increased to FF2.80 from FF2.60. Its share price closed up FF3 last night at FF196, giving the entire company a market value of some FF22bn.

Mr Marcel Roulet, chairman, called the results "satisfactory", referring to the profit margin, an increase in sales in Europe outside France to 28 per cent of the total, and the consolidation of its financial position.

The company ended last

year with FF14bn in own funds and less than FF900m net debt. To this, Mr Roulet said, should be added the option which Thomson-CSF has to sell its 37.2 per cent holding in the SGS-Thomson semiconductor business for about \$1bn, and the gain from the sale of its Crédit Lyonnais shares.

This, Mr Roulet claimed, put Thomson-CSF in a comfortable position in which to "embark on the regrouping and rationalisation" of the French defence industry that will flow from the company's sale.

Mr Roulet admitted his preference for privatisation by means of a stock market flotation rather than the trade sale chosen by the state.



Marcel Roulet: described results as satisfactory

Satellite wars break out in France

By Andrew Jack
in Paris

Canal Plus, the French pay television group which last year launched a digital satellite service, is refusing to broadcast advertisements for the country's leading rival satellite provider.

Télévision Par Satellite has been requesting airtime on Canal Plus, an encrypted, subscription-based channel, at least since the middle of last month, yet it has not received an official reply.

The stalling comes in spite of advertisements for Canal Plus's service, called Canal

Satellite, on TF1, France's leading private sector television broadcaster, which is an important shareholder in TPS.

It represents the latest in a series of bitter feuds between Canal Plus and TF1, as well as between their rival satellite services, Canal Satellite, which was launched last April, and TPS, which began operations in December.

Canal Plus confirmed yesterday that it had received an advertising request from TPS, but would only say that it was "studying" the demand. A preliminary con-

clusion is expected to be reached within a few days.

The group is believed to be considering the legal implications of a refusal of TPS's order, using the argument that to carry advertising from TPS - which offers a range of programmes similar to those available on Canal Plus as well as Canal Satellite - could undermine its core business.

Individuals close to Canal Plus suggested yesterday that Canal Satellite advertising on TF1 did not threaten its primary activity of terrestrial broadcasting, and even helped it by providing it

with advertising revenue.

By contrast, Canal Plus has a tiny percentage of the French television advertising market, which is dominated by TF1, and only accepts adverts during the short periods each day when its programmes are broadcast unencrypted.

Canal Plus is also believed to be studying whether it can bring a legal case against TF1 for allegedly broadcasting details of its rival TPS service just after adverts it has carried for Canal Satellite.

TF1 and Canal Plus have long attacked each other. Mr

Patrick Le Lay, chairman of TF1, threatened in 1995 to sue Canal Plus as he argued that *Les Guignols*, a weekly satirical programme it broadcasts, spent disproportionate time mocking his company.

The bitterness between the two stations has intensified with the launch of their competing satellite services. In the past few weeks, the operators have come out with a large number of claims and counter-claims on subscriptions, the nature of the services on offer and the contracts signed with film distributors.

INDUSTRIVÄRDEN

Account Report 1996

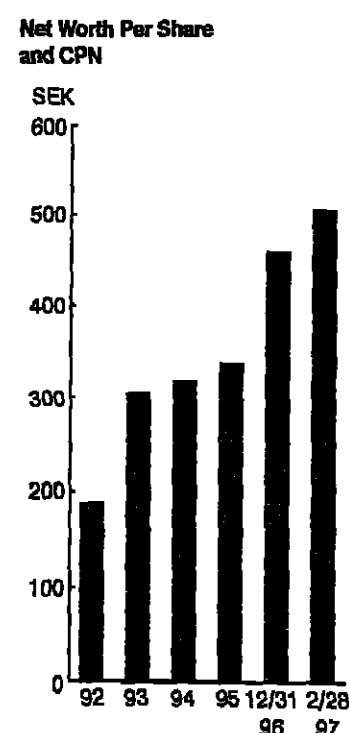
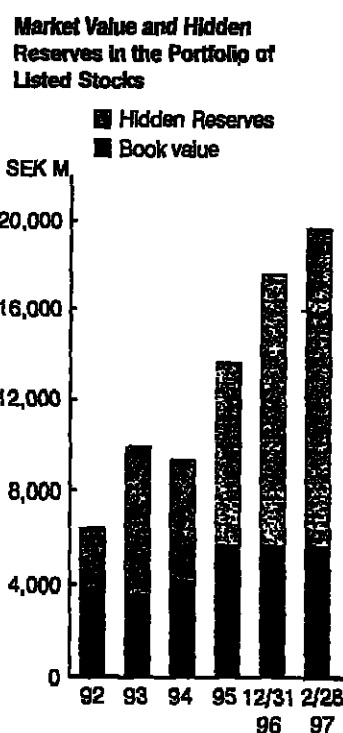
• Consolidated earnings after financial items totaled SEK 1,417 M (1,765). Capital gains on sales of stocks accounted for SEK 687 M (1,281) of this total.

• The value of the portfolio of listed stocks on December 31, 1996, was SEK 17,752 M (13,775). Adjusted for purchases and sales, the value of the portfolio rose 36 percent (20) since the beginning of the year. The General Index rose 38 percent (18).

• The portfolio was valued at SEK 19,782 M at February 28, 1997. Adjusted for purchases and sales, the increase from year-end 1996 was 13 percent, compared with 12 percent for the General Index.

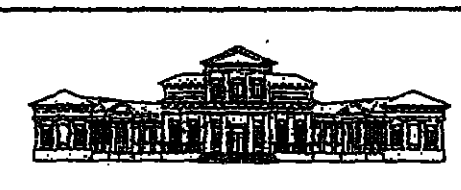
• Net worth at year-end was calculated at SEK 455 (333) per share and CPN. Net worth at February 28, 1997, was calculated at SEK 501 per share and CPN.

• The Board of Directors proposes that the dividend be raised by SEK 2 to SEK 13 per share. Interest per CPN would thus amount to SEK 14:95.



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Bank sell-off a litmus test for Netanyahu

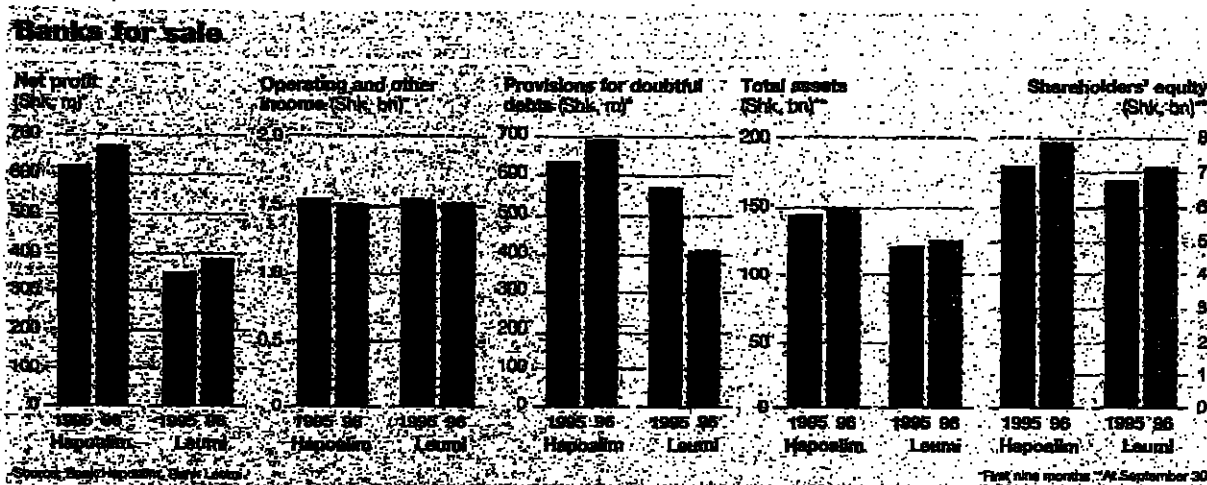
A successful Hapoalim sale would help the Israeli PM silence his critics, writes Avi Machlis

The Israeli government yesterday pressed ahead with plans to sell its holdings in Israeli banks, and invited investors to apply to buy a controlling stake in Bank Hapoalim, the country's biggest.

In a notice published by the government and MI Holdings, the government company responsible for selling the banks, Israel said it hoped to complete the Hapoalim sale by late August. Mr Meir Jacobson, general manager of MI Holdings, knows any delay may frighten investors away. "The critical issue is time," he says, recalling how attempts to sell the bank last year failed. "Businessmen want to begin and finish a deal within a reasonable time period."

The sell-off of Israel's biggest state-owned banks is a litmus test for Mr Benjamin Netanyahu, Israel's prime minister, who has made privatisation the cornerstone of his economic policy. He recently said the government planned that the banks' privatisation would be "a milestone in the break-up of the concentration of the Israeli economy".

Through selling government-owned companies and banks, Mr Netanyahu has



promised to raise Shk4bn (\$1.12bn), but it is still unclear what the receipts will be used for. If just three of the planned bank sell-offs are successful, he may reach that target, and so silence critics that his goals are unrealistic.

The government took control of the banks and rescued them from near collapse after the loans-for-shares scandal of 1983. Since 1988, it has been committed to returning them to the private sector, but it has been a slow process.

Some scepticism about the prospects of a fast-paced drive to sell-off the banks

was aroused when a second-ary float of 17 per cent of Israel Discount Bank, the third-largest, was recently postponed to April because of concerns over provisions. The sale had been set for February and was expected to raise Shk500m.

That delay, however, has not affected expectations for sales of the two much larger banks. A tender for a domestic offering of 10 per cent of Bank Leumi, the second-largest, is expected soon, Mr Jacobson says. The sale is planned for May and could raise Shk700m.

But the priority is to sell a controlling stake of Bank

Hapoalim. The bank has a 35 per cent market share of loans. Net profits rose 8 per cent in the first nine months of 1996, from \$193.8m to \$208.8m. It controls about 8 per cent of Israel's gross domestic product through its investments, which include a 23 per cent stake in Koor Industries and 25 per cent of Clal, two of the country's largest industrial conglomerates. Hapoalim is obliged, under banking legislation introduced last year, to sell one of these stakes by 1999.

The government is determined to sell between 25 and 69 per cent of Hapoalim to private investors. The sale

could generate between Shk2bn and Shk5.47bn in revenues, based on shareholder equity of Shk7.94bn at the end of last year's third quarter.

After failed efforts to sell the bank last year, analysts believe the time is now right. First, the political environment appears to have stabilised since the election last May of Mr Netanyahu and his conservative Likud-led coalition. And analysts say Israeli banks are undervalued. "Bank Hapoalim is cheap and the markets are going up," says

Ms Debra Kodish, an analyst at Zannet Securities in Tel Aviv. "In the past two years, Israeli banks have traded at 20-30 per cent below book value compared with banks around the world which have traded as much as two times higher than their book value."

Two groups comprising foreign and local investors are already lining up to bid for Hapoalim. One is led by Mr Jeffrey Kell, the US banker. The other is headed by Mr Ted Arison, the US-Israeli entrepreneur, and includes Claridge-Israel, one of the largest foreign investors in Israel.

Mr Jonathan Kolber, president of Claridge-Israel, says his group pulled out last year, just before a deal was closed, because the process had dragged on for more than 18 months. It was also taken aback by banking reforms announced during advanced stages of negotiations. This time, it appears more confident. Mr Kolber says: "Our analysis of everything - the political situation, the economy - the fact that the market has woken up and the fact that MI Holdings and the government seem to have a clear desire to sell makes things more appealing now."

EUROPEAN NEWS DIGEST

Acerinox follows trend with 56% fall

Acerinox, the Spanish stainless steel producer, reported weakened 1996 profits in line with rest of the sector, blaming sharply reduced prices. Consolidated net earnings fell 56 per cent to Pta4.5bn (\$102.3m), sales were down 5 per cent to Pta180bn and net operating income was reduced by 66 per cent to Pta17.9bn.

International stainless steel prices fell by nearly 50 per cent last year, and Acerinox's income was also affected by the revaluation of the peseta against the D-Mark.

Production by the group, which owns North American Stainless in the US, a stake in Mexinox, Mexico's only producer of stainless flat products, and also operates the world's largest totally integrated plant in Algeciras, on the southern tip of Spain, reached record levels last year.

Krupp Thyssen Nirosta, the special steels subsidiary of the Krupp Hoesch and Thyssen steel groups, has bought a one-third holding in Mexinox from a group of Mexican investors, and additional shares from Acerinox. Nirosta said yesterday. A further one-third stake, held by Thyssen, will be transferred to Nirosta to give the special steelmaker 90 per cent of the Mexican company. Acerinox will hold the remaining 10 per cent.

The acquisition gives Nirosta access to the North and South American markets. No financial details were given, but Krupp said Mexinox had annual sales of nearly DM500m (\$292.5m) and net profits of about \$30m in 1995.

Tom Burns, Madrid, and Peter Norman, Bonn

Alcatel SEL to sell two plants

Alcatel SEL, the German electronics and engineering company 99 per cent held by Alcatel Alsthom of France, has confirmed it is to sell two plants in southern Germany as part of a restructuring plan aimed at helping the group back into profitability. More than 600 jobs will be cut by the sale of a plant in Landshtut, Bavaria, which makes motors and ventilation equipment, and another factory in Stuttgart, which makes control equipment. The disposals are part of the company's plans to reduce its staff to 13,700 by the end of this year, down from 16,000 at the end of 1996.

Frederick Stüdemann, Frankfurt

Kvaerner in ship stake sale

Kvaerner, the Norwegian shipbuilding and engineering group, has agreed to sell its 50 per cent share in the cruise ship Royal Majesty, to Norwegian Cruise Line. NCL will pay \$110m in cash, together with 20 per cent of its own stock, valued at about \$30m. For Kvaerner, the sale is part of a disposal of non-core assets.

Under the deal, NCL is to take over the operations of Crown Dynasty, which has been running the 1,000-passenger Royal Majesty. NCL has agreed to commission a new cruise liner from Kvaerner's Masa yard in Finland.

Since acquiring UK conglomerate Trafalgar House in April 1996, Kvaerner has disposed of assets worth £730m (\$1.18bn). Among these are the Royal Majesty, a fleet of refrigerated freighters and commercial properties including the Ritz Hotel. The company says it is on target to shed £1bn worth of assets within two years. Kvaerner is looking to withdraw from ship-owning and operating to concentrate on core activities of shipbuilding and marine engineering.

Anatoli Lieven
Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Continental climbs 24%

By Sarah Althaus in Frankfurt

Continental, the world's fourth-largest tyre maker, said yesterday net profits climbed 24 per cent from DM155.2m to DM192.5m (\$113.6m) in 1996, bolstered by new products and an extensive restructuring over the past few years.

Profits before tax and extraordinary items jumped 68 per cent from DM195m to DM326m, on a 1.7 per cent rise in turnover from DM10.3bn to DM10.4bn.

The results were in line with market expectations. The shares closed DM1 higher at DM34.80.

Mr Georg Styrzer, analyst at Veritasbank Research in

Munich, commented: "Thanks to the continued restructuring, earnings will probably continue to rise sharply over the next few years."

Analysts also attributed their upbeat outlook to the group's cost-cutting drive, under which it is shifting production from expensive regions in Europe and the US to lower-cost sites in the Czech Republic, Thailand and Portugal.

The move is part of a wider restructuring at Continental over the last few years, during which it has cut about 20 per cent of its workforce. It said restructuring had gathered pace last year, with the workforce falling by 3,151 to 44,767.

Profits in the passenger vehicle tyre division were substantially higher than last time, while turnover increased 3.7 per cent to DM4.2bn, helped by a strong performance in its winter tyre business.

In commercial tyres, restructuring costs reduced profits, and sales dropped 8.3 per cent to DM1.1bn.

Continental General Tire, the US unit, improved earnings, although a slight drop in the replacement tyre business kept turnover virtually unchanged at DM2.1bn.

Restructuring led to a sharp improvement in profits at ContiTech, the technical products arm, on a 5.2 per cent increase in turnover to DM3.8bn.

BBL warns on euro costs

By Neil Buckley in Brussels

The new chief executive of Banque Bruxelles Lambert yesterday refused to rule out a possible alliance with another bank as he warned that the arrival of the euro would impose strains in the next five years.

However, Mr Michel Tilmant, who succeeded Mr Daniel Cardon this year, said that Belgium's third-biggest bank would stand alone for now.

He warned that BBL's latest estimate of transition costs to the single currency was BFr2.6bn (\$73.7m). His comments came as the bank announced a 15.1 per cent increase in net profits for 1996 from BFr6.94bn to

BFr10.29bn - at the top end of expectations.

Mr Tilmant's predecessor launched the debate over the need for a merger of Belgium's biggest banks to create a financial institution with the clout to compete in a single-currency Europe.

BBL held tentative discussions early last year with Générale de Banque, Belgium's biggest, and the local authority-owned Crédit Communal de Belgique on such a merger, but the main shareholders failed to agree.

Mr Tilmant said yesterday BBL now felt it was strong enough to compete alone in the new environment - but would examine carefully any proposals it received. BBL's share price has

risen recently amid speculation that the idea of a "Grande Banque Belge" might be resurrected.

Mr Tilmant said the costs of the euro would make it difficult to maintain the strong profits growth of recent years - consolidated earnings per share have jumped from BFr157 in 1992 to BFr528 in 1996.

Total operating revenues increased 18 per cent last year to BFr87.1bn, with net interest income up 10 per cent to BFr54.3bn and other income up 27 per cent to BFr32.7bn. Depreciations, write-downs and provisions increased only 5.5 per cent to BFr13.8bn, leading to a 21 per cent increase in pre-tax profits to BFr17.9bn.

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March 1997

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COMPANIES AND FINANCE: ASIA-PACIFIC

Taiwan chipmaker sees profits halved

By Laura Tyson in Taipei

Shares in Taiwan Semiconductor, the country's leading chipmaker, fell T\$1.50 yesterday to T\$36.00 after the company forecast sharply reduced profits in 1997.

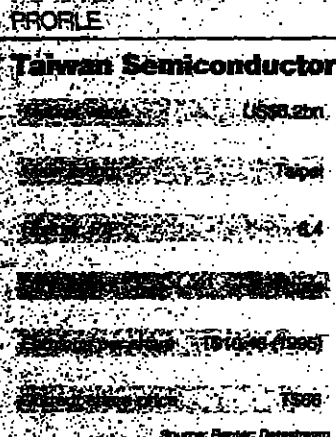
The world's leading dedicated foundry chipmaker said rapidly rising supply would keep prices under "considerable pressure" this year and that net profits would be less than half the T\$19.4bn (US\$7.06bn) in 1996.

The company also announced the resignation of Mr Don Brooks, its 58-year-old president, who plans to return to the US.

Since Mr Brooks joined Taiwan Semiconductor in 1991, the company has grown at an average annual rate of 54 per cent in sales terms, while profits have grown at an average 106 per



Chairman: Morris Chang



Share Price: Daily Data



Net Income: US\$bn

cent a year. Mr Morris Chang, the company's chairman and founder, will take over as president on May 1.

The company forecast net profits of T\$9.14bn this year, 52.9 per cent below 1996. It has set a target of net sales

of T\$35.22bn, down 10.6 per cent from last year. Analysts said the downward revisions were not unexpected given that the semiconductor industry was at the bottom of the cycle, and other chipmakers had

predicted equally gloomy results. Prices across the industry collapsed last year and are not expected to recover for some time. One analyst said: "This year is not going to be pretty, and the company is

would register growth of 10-15 per cent this year and that growth in the contract manufacturing market would be greater than this.

Competition has intensified in contract manufacturing as new arrivals in the market have sought to emulate the success of Taiwan Semiconductor. The company said the market faces oversupply and price deterioration this year.

This year the company aims to speed up development of advanced 0.25 micron and 0.18 micron technologies. It also plans to build new capacity in order to maintain annual 30 per cent growth in capacity, expected to reach 500,000 eight-inch wafers this year. The company aims to keep its lead on competitors' technology by lifting research and development spending by 50 per cent.

ASIA-PACIFIC NEWS DIGEST

Posco down 26% as steel prices fall

South Korea's Pohang Iron & Steel (Posco), the world's second-biggest steelmaker, reported a 26 per cent drop in 1996 net profits to Won24.4bn (\$723m) because of a fall in global steel prices. Prices for hot-rolled steel products, regarded as a measure of international prices, have fallen 20 per cent after peaking in 1995. The decline reflects excess supply resulting from a recent expansion of global production. Posco was forced to cut domestic prices for hot-rolled steel products by 23 per cent because of increased competition in Korea as exports declined.

Although the results were slightly below expectations, Posco shares rose yesterday by Won100 to close at Won42,000, in anticipation of a rebound in earnings this year. Posco expects recurring profit to reach Won1,000bn in 1997 against Won844.4bn last year, while sales will climb 8 per cent to Won8,000bn this year, compared with 5 per cent increase to Won6,450bn in 1996. Earnings last year were also affected by increased costs for raw materials, including iron ore and coal, which rose on average by 4 per cent.

John Burton, Seoul

Fraud problems hit Piltel

Piltel, the Philippines' leading cellular phone group, yesterday reported a 14 per cent slump in net profits to 710m pesos (\$27m), after heavy losses caused by fraudulent subscribers.

Piltel, a subsidiary of Philippine Long Distance Telephone Company, the former state monopoly, saw profits fall from 822m pesos after it wrote off more than 76 per cent of its long-term receivables at a cost of 897m pesos. The group was forced to cut its total subscriber base by 85,000. Operating expenses jumped from 2,550m pesos to 4,200m pesos. Earnings per share slipped from 0.89 pesos to 0.56 pesos. Mr Louis Hilado, telecom analyst in Manila with IBC Barings, the investment bank, said: "1996 was a wake-up call for Piltel and other cellular groups. Companies have since taken a lot of action to safeguard their subscriber base, and Piltel is now more cautious, going for quality rather than quantity. Last year was a mad rush for market share."

At current rates of growth, Piltel is set to lose its leading position to Smart, the joint venture between NTT of Japan and Metro Pacific, which is adding about 30,000 subscribers a month compared with Piltel's 20,000. Last year the Philippine market grew dramatically, with the number of new subscribers rising 64 per cent.

Justin Marozzi, Manila

Woodside Petroleum ahead

Woodside Petroleum, the Australian oil and gas producer that runs the North-West Shelf project off Western Australia, reported a 39.4 per cent increase in after-tax profits last year to A\$195.5m (US\$154.5m). Sales revenues rose 21.2 per cent to A\$737.8m, in part because of higher US dollar prices and increased volumes. These trends were only partly offset by the strengthening Australian dollar. Debt charges also fell significantly, from A\$108.5m to A\$79.4m, as a result of refinancing and lower interest rates. Woodside shares rose 31.7 cents, or 3.5 per cent, to A\$9.98.

Nikki Tait, Sydney

Wills returns to profit

W.D. & H.O. Wills, the Australian cigarette manufacturer controlled by the UK's BAT group, yesterday announced an after-tax profit of A\$13.3m (US\$10.5m) for last year, a turnaround from 1995's A\$5.2m loss. The result was before abnormal items of A\$8.2m. Before abnormal items and before tax, Wills made a profit of A\$35.3m, compared with a loss of A\$13m in 1995. Sales were 11.1 per cent higher, at A\$988.6m.

Nikki Tait

Boral slumps at halfway

Boral, the Australian building products and energy group, yesterday announced a slump in after-tax profit in the half-year to end-December, from A\$109.7m in the same period of 1995 to A\$83.2m (US\$79.5m). Sales were 2.1 per cent higher at A\$2.68bn. The result was partly due to a higher tax bill, although abnormal charges were lower. At the operating level, profits before abnormal charges were down 12.7 per cent, at A\$155.8m.

Nikki Tait

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PBL hurt by weakness in advertising

By Nikki Tait in Sydney

Publishing and Broadcasting (PBL), the listed Australian media group controlled by Mr Kerry Packer, blamed a soft advertising market for a 3.1 per cent drop in first-half profits.

PBL's after-tax profits fell in the six months to end-December from A\$109.2m to A\$105.9m (US\$83.5m), with earnings per share slipping 3.2 per cent to 20.5 cents.

There were no abnormal charges in the period, while the prior year was boosted by an A\$3.1m surplus.

This meant a small profits increase at the operating level, from A\$148.2m to A\$159.1m. Total revenue, however, was slightly lower at A\$612.8m, compared with A\$666.4m.

PBL said profits before interest in all its main divisions were flat. Its television interests - which include Channel Nine, Australia's leading commercial network - made A\$106.7m, against A\$105.5m. Gross advertising revenue, after adjustments for different half-year lengths, fell 0.7 per cent, and market share was 38.8 per cent.

In magazines, earnings were also little changed, at A\$63.1m compared with A\$63m. Advertising revenue was up 3.4 per cent overall, but the group's Australian interests posted a 1.8 per cent decline. Expenses rose 3.2 per cent, but PBL expected the reduction in paper prices to be reflected in the full-year results.

Mr James Packer, managing director and son of Mr Kerry Packer, said advertising remained "very soft, with little prospect of any significant improvement in the second half". The television divi-

sion's result would be flat, year-on-year, in the second half, although magazines might fare better thanks to falling paper prices, he said.

He said the group's "strategic goals" in relation to the Fairfax group, the Australian newspaper publisher in which it holds a 14.9 per cent stake, were unchanged. Last November, PBL indicated it wanted to lift its stake in Fairfax, and Mr Kerry Packer has said he would like outright ownership. PBL has been unable to pursue these aims because of Australia's cross-media ownership rules, but

these are currently under review.

Mr James Packer also said PBL hoped to close its purchase of the management contract for the Sydney Harbour Casino, the new multi-million dollar gaming property, by mid-year.

● Australian Provincial Newspapers, the listed newspaper, radio and advertising group, announced flat profits in 1996. APN's after-tax profit of A\$26.5m compared with A\$26.4m in 1995. Earnings per share eased from 13.2 cents to 12.3 cents, while revenues increased from A\$286.8m to A\$304.4m

Peregrine chief urges relaxation of HK rules

By Louise Lucas in Hong Kong

Peregrine Investments Holdings, the pan-Asian merchant bank, is to press for a relaxation of Hong Kong rules after a single minority shareholder scuppered its bid to take Kwong Sang Hong private.

Mr Philip Tose, chairman of Peregrine Investments, said his group's failure to take the cosmetics-to-property company private demonstrated that Hong Kong rules made it "virtually impossible" to succeed.

Some 87.53 per cent of votes cast were in favour of the move, but Hong Kong rules require 90 per cent acceptance. Votes cast represented just 40 per cent of the eligible minority share base, allowing one shareholder with 11m shares - or less than a 2 per cent stake - to quash the plan.

Mr Tose said: "It's an appallingly low turnout; this

is why the 90 per cent rule is so absurd."

He is now pressing for the 90 per cent rule to be scrapped, and expects support from the investment banking community after the failure of other similar moves - most recently that of Asian Resources, a property company.

He said: "First, the 90 per cent rule has to go back to 75 per cent [as it was in 1981] because that's the law in Bermuda and England, and there's no reason why Hong Kong should be more stringent."

"Second, the Central Clearing and Settlement System [where some shares are held] needs to re-evaluate the way it votes on these things. Maybe, instead of abstaining if it does not receive instructions, CCAS should vote with the management or with the independent directors and their financial advisers."

As a board member of

CCAS, which was launched in June 1992, Mr Tose will begin his discussions there, before lobbying the stock exchange and the Securities and Futures Commission, the securities market regulator. "Obviously... the buck is going to stop with the SFC, as the decision to go to 90 per cent was taken at their instigation," he said.

For Kwong Sang Hong, failure to become wholly owned by Peregrine will affect its ability to participate in the increasingly large property projects taking place in Hong Kong, and Mr Tose said capital raising was likely, although not imminent.

He also forecast volatility in the company's share price today. "The only people going to be disadvantaged are the shareholders. I believe there's a huge long position in Kwong Sang Hong and a short position in Peregrine, so I imagine KSH is going to get trashed."

Optus confident of flotation this year

By Nikki Tait

Optus Communications, Australia's second telecoms carrier, yesterday said it still hoped to float on the stock market in 1997 - in spite of the complex legal battle it is fighting with Seven Network, the Australian commercial TV group, over Optus Vision, its pay-TV offshoot.

The Optus Vision dispute, which is before the courts, caused the estimated A\$4bn (US\$3.2bn) float to be postponed from 1996.

It centres on whether Optus and other OV investors have breached a shareholders' agreement. If so, Seven argues it should be allowed to acquire the 98 per cent of OV that it does not own at a heavily discounted price.

Mr Ziggy Switkowski, Optus chief executive, said yesterday that 1997 was still a feasible date for a float. "The float is clearly on hold.

Once that legal action is resolved, the board will meet," he said.

Mr Switkowski's remarks came as Optus revealed an after-tax profit of A\$58.9m in the six months to end-December, up from A\$7.2m a year ago. The five-year-old company said revenues grew 31.7 per cent to A\$1.2bn, with earnings before depreciation, amortisation, interest and tax reaching A\$309.4m, compared with A\$189.5m.

The revenue growth was spread across all sectors. In the long-distance market, where Optus competes with the government-owned Telstra group, revenues increased 24 per cent to A\$476m and market share increased from 16 per cent to 18 per cent.

In the mobile market - where the competitors are Telstra and Vodafone - revenue grew 58 per cent to A\$530m, with the group serving 32 per cent of the

total market and 87 per cent of digital mobile customers.

Payments to other carriers increased only modestly, by 13.8 per cent to A\$409.1m. This reflects the increasing traffic which Optus is capable of carrying on its own network, thus improving margins. Capital expenditure on Optus's own business was A\$273.4m in the half-year.

Optus said its share of Optus Vision's losses in the half-year was A\$63.1m. Mr Switkowski described this figure - and subscriber numbers - as "in line with expectations". During the half-year, Optus invested a further A\$246.1m in Optus Vision.

● Australis Media, Australia's first pay-TV operator, yesterday announced a A\$108.6m loss for the six months to end-December. The figure, struck before abnormal items, compared with a A\$97.5m loss in the same period a year earlier.

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March 1997



**1996, 4TH YEAR
OF NET INCOME GROWTH:**
FRF 624 MILLION, +20 %

The Board of Directors of SCOR met on March 5, 1997, under the Chairmanship of Jacques Blondeau, to review the Group's consolidated financial statements and approve the parent company financial statements for 1996.

SCOR Group Consolidated key figures

(in FRF million)	1995	1996
Gross written premiums	11,848	13,814
Net written premiums	10,184	12,134
Operating result	591	620
Group net income	522	624
Investments	26,818	31,957
Net technical reserves	21,711	27,319
Group shareholders' equity	5,146	5,069
Net earnings per share	19.31	23.00
Employees	1,078	1,164

The wave of concentrations among the world's leading insurers and reinsurers continued in 1996. SCOR has pursued its premium development (+16.6%) through strong organic growth and by acquiring the Allstate Group's US reinsurance portfolio. This acquisition allows SCOR to optimize the Group's capital base and to double its American market share. Return on equity amounts 11.3%.

During the past year, SCOR restructured its shareownership and became the only European reinsurance company to be listed on the New York Stock Exchange.

Parent company

Profit for the year after depreciation, amortization and income taxes, amounted to FRF 339 million. The Board of Directors will recommend at the Annual Meeting of Shareholders to distribute a global dividend of FRF 15, including tax credit (avoir fiscal), which is twice the level of the previous year's dividend.

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FINANCIAL TIMES
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COMPANIES AND FINANCE: THE AMERICAS

Paribas plans 25% increase in its US workforce

By Tracy Corrigan in New York and George Graham in London

Paribas, the French financial group, plans a 25 per cent increase in its US investment banking workforce this year in a move to strengthen its position in capital markets, derivatives and corporate banking.

Mr André Lévy-Lang, Paribas chairman, said the bank did not subscribe to the conventional view that the investment banking market would soon be dominated by a "global bulge bracket" of five or six leading banks, and that it wanted to be a "global player in segments".

"I just don't believe that the whole

banking market will be dominated by five global banks," Mr Lévy-Lang said. "In different areas there will be different dominant banks."

Unlike big European universal banks such as Deutsche Morgan Grenfell and Union Bank of Switzerland, Paribas is not trying to win market share from the US investment banks on their home turf.

Instead, it will focus in the US on specialties, such as trading and distributing European bonds and equities to the relatively small core of institutional investors that dominate that market.

However, Paribas plans to increase its US staff this year from 800 to 1,000 -

about half the number at Deutsche Morgan Grenfell.

"We are trying to stay away from the lumberyard," said Mr Alain Louvel, chief executive officer of Paribas North America, referring to the so-called "two-by-threes" and "three-by-threes" - the measurements used to describe the guaranteed multimillion-dollar bonuses over a number of years offered by DMG and others. But he admitted "you have to go with the market".

Mr Lévy-Lang said he was "definitely worried" about the escalation of bonuses in investment banking, but saw no solution.

"Bankers who say there will be only five global players in five years time

are playing into that whole culture, because they generate this panic that if you don't hire at any price, you will go out of business," he warned.

While Paribas does not break down its results by geographical area, Mr Lévy-Lang said the US operation was "quite profitable in every profit line". The extra staff will reinforce product lines in capital markets and derivatives, and expand the corporate banking business in healthcare, media and telecoms. Paribas already helps finance about 15 independently produced films a year, including Quentin Tarantino's *Reservoir Dogs*.

The group is also planning to restructure its portfolio of equity investments,

selling off some of its stakes in France, Belgium and Luxembourg, but buying in Asia, where the bank expects to invest about \$1bn over the next three years.

"On a net basis we will be disinvesting in Europe," Mr Lévy-Lang said, noting that only 4 per cent of Paribas' portfolio was currently invested outside Europe.

Large equity stakes in industrial companies have been a feature of the traditional French *banque d'affaires*, such as Paribas, as they have been of the large German banks.

While the system has been criticised in the US and UK, banks in both countries are now boosting departments

described as merchant banking or private equity, which make substantial investments in established but unlisted businesses.

"Merchant banking is becoming fashionable again. We have enough experience, both good and bad, to know the potential and the risk," Mr Lévy-Lang said. "The biggest risk is to mix up your banking business and your investment business - to try to buy banking business with your equity investments."

He also said banks should not believe they can run a company better than its management, and had to remember basic banking rules about diversifying their risks.

CBOT warming to the computer

World's largest futures exchange is recognising the advantages of screen trading

Derivatives exchanges in Chicago and London are finally jumping on the screen-trading bandwagon, recognising that, for odd hours and low-volume products at least, computers are a cheaper way to trade.

No one expects the open-outcry futures pits at the world's largest derivatives exchanges to disappear soon. Exchanges such as the Chicago Board of Trade, the New York Mercantile Exchange and the London International Financial Futures Exchange are building new trading floors, saying expansion cannot wait until technology manages to duplicate the six seconds it takes for a human voice to complete a futures trade.

However, concessions to screen trading are coming quickly as the industry's volume growth tails off and cost pressures converge. The CBOT, the world's largest and busiest futures exchange, is discussing turning out the lights on its 10-year-old night bond-trading session, and switching the business to its screen-trading system, known as Project A.

The idea would have prompted scrutiny just a year ago: members of the 150-year-old exchange feared losing their trading jobs to a computer. Now, however, the prospect is viewed as a sensible use of technology to cover an expensive but



Competing with the screens

essential trading period. "Everyone knows the exchange and its member firms are losing money on the night trading session," says Mr Patrick Arbor, CBOT chairman. "With Project A becoming a successful, it provides a logical alternative." Volume on Project A screens, which are open only when the trading floors are not operating, has outpaced the night floor session this year by a margin of four to one.

Project A did not receive

any significant investment until last year. In addition to eclipsing night pit trading in Chicago, Project A has also thrown a long-planned futures link between the CBOT and London's Liffe out of kilter.

Recognising that technology has progressed since the link was conceived in 1994, the two exchanges have agreed to allow domestic screens to operate while the foreign floor trading links are in session. The original agreement had required

screen trading to be scaled back as the floor-trading link developed.

Liffe already uses its Automated Pit Trading screens to trade Japanese government bond futures during the day, and sees APT as an important tool in its strategy to become the world's largest futures exchange. Liffe saw more than 5m contracts traded on screen in 1996, a 20 per cent rise on 1995.

Perhaps surprisingly, the US and London exchanges are looking to Europe for

their next generation of technology. Europe's bourses have long been computerised, offering systems that only need to be modified for derivatives. The Chicago Mercantile Exchange recently signed on to the Paris bourse's screen system, finding this faster and cheaper than building its own.

But resistance to computer trading at established futures exchanges in Chicago and London remains strong. Member-owners have too deep a stake in the status quo. The switch to electronic trading seems likely to come first in US equity options markets, which have historically been more receptive to new technologies.

The Chicago Board Options Exchange, which lists options on 850 individual companies and 35 equity indices, is already planning for automation. It has contracted with the Swiss Options and Futures Exchange to build a screen-based system which it expects to introduce next year.

The system will be used first to move low-volume products off the floor and on to the screen, and to replace RAES, the CBOE's matching system for orders of 10 contracts or less. But it also enables the exchange to automate further, should the need arise.

Laurie Morse

Barney's unsecured creditors reject \$240m Dickson offer

By Richard Tomkins in New York

An offer to buy Barney's, the bankrupt New York retailer, for \$240m has been rejected by the company's unsecured creditors as too low.

Lawyers for the creditors' committee yesterday described the offer as "a non-starter", indicating that they were holding out for a better offer from one of the interested parties.

Barney's, an upmarket

department store chain known for its designer clothing, went into chapter 11 bankruptcy protection in January last year after an over-ambitious expansion programme drained it of cash.

The \$240m bid was made at the end of last week by Dickson Concepts, the Hong Kong retailer that controls Harvey Nichols, the fashionable UK department store.

The offer was seen as a sighting shot and is expected

to produce rival bids from other potential suitors, including Saks, the holding company of Saks Fifth Avenue, and the Neiman Marcus unit of Harcourt General.

Mr Lawrence Handelsman, a lawyer at the New York firm of Stroock & Stroock & Lavan, said if no satisfactory offer was forthcoming, the creditors would consider taking ownership of the store under their own reorganisation plan.



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INTERIM REPORT FOR THE SIX MONTHS ENDED 31ST DECEMBER, 1996
The Directors announce that the unaudited results for the six months ended 31st December, 1996 were:

	Group		Company	
	6 months ended	6 months ended	6 months ended	6 months ended
	RM'000	RM'000	RM'000	RM'000
Turnover	703,629	560,218	92,582	107,717
Investment and other income	17,653	22,297	31,423	32,905
Operating profit	161,550	153,462	44,021	48,906
Associated Companies	53	5,103	-	-
Profit before taxation (See Note 1)	161,603	158,565	44,021	48,906
Taxation (See Note 2)	48,826	46,628	11,248	12,055
Profit after taxation but before extraordinary items	112,777	111,937	32,773	36,851
Minority interests	5,040	4,310	-	-
Extraordinary items (See Note 3)	108,537	107,627	32,773	36,851
Profit attributable to shareholders	108,537	113,147	32,773	37,097

NOTES

- After charging:

- interest	1,147	1,608	301	504
- depreciation	19,698	17,275	2,498	2,330
- Taxation includes:

- current	48,370	47,054	11,248	12,055
- deferred	(474)	(595)	-	-
- associated companies	130	169	-	-
- The extraordinary items comprise:

Gain on compulsory land acquisition	-	5,520	-	246
-------------------------------------	---	-------	---	-----

4) There were no pre-acquisition profits included in the results for the half year.

	Group	
	6 months ended	6 months ended
	31.12.96	31.12.95

Profit after taxation but before extraordinary item	16.1%	19.2%
Profit after taxation and minority interests but before extraordinary item as a percentage of shareholders' funds	3.8%	4.0%
Net earnings per share (in sen)*	10.8	10.7
Net tangible asset backing per share*	RM2.82	RM2.71

* The net earnings per share and net tangible asset backing per share are calculated based on the share capital of 1,003,296,499 (1995: 1,002,240,499) shares in issue.

The slight improvement in Group profit is mainly attributable to higher contribution from the property division while lower surplus from plantation and losses of the manufacturing and overseas operations partly negated this increase. The lower surplus from plantation is largely due to lower palm prices although crop production is higher with full contribution from Golden Hope Plantations (Sabah) Sdn. Bhd. (formerly known as BAL Plantations Sdn. Bhd.). Palm prices are currently higher than those achieved during the first half and if this trend continues, plantation profit will be better for the second half. Efforts to improve the performance of the manufacturing and overseas operations are on-going and these two divisions are expected to perform better in the second half. Group profit for the year is anticipated to be maintained at the same level as last year.

HARVESTED CROPS - TONNES

	Group	
	6 months ended	6 months ended
	31.12.96	30.12.95
FFB	793,856	684,592
Palm oil	154,181	128,842
Palm kernel	44,353	39,035
Rubber	17,122	16,817
Cocoa	2,969	2,053
Copra	2,388	2,034

DIVIDEND

An interim dividend of 5 sen less income tax at 30% has been declared in respect of the financial year ending 30th June, 1997. The date of books closure for the interim dividend payment will be announced soon.

COPIES OF THE COMPANY'S INTERIM REPORT

A copy of the Company's Interim Report will be posted to shareholders on 10th March, 1997. Copies will also be available from the Company's registered office and the Branch Registrar, Independent Registrars: Group, Bourne House, 34, Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom.

KUALA LUMPUR,
5th March, 1997

By Order of The Board
Norlin binti Abdul Samad
Secretary

Change in maize price hits Maseca

By Daniel Dumbey in Mexico City

Changes in the price of maize hurt fourth-quarter operations at Grupo Industrial Maseca, one of Mexico's biggest food companies. But sales increased as manufacturers of tortillas - the country's staple - switched from using ground maize to the corn flour in which Maseca specialises.

The company said that

sales during the present year might be affected by government-imposed limits on subsidised tortillas and corn flour. Subsidies provided more than 40 per cent of the company's revenues for 1996. For the fourth quarter, Maseca reported sales of 1.3bn pesos (\$163m), up 11 per cent on the comparable period. Operating profits fell 8 per cent to 192m pesos.

However, net profits increased 16 per cent to 196m

pesos, helped by the company's strong financial position. Total debt fell to 961m pesos at the end of the year compared with 1.2bn pesos in September, and the company made net financial gains of 25m pesos for the quarter. For the year as a whole, sales soared 42 per cent to 6.1bn pesos, while operating profits jumped 25 per cent to 892m pesos. Net profits increased 18 per cent to 701m pesos.

"Maseca's growth was limited for the quarter because of the impressive increases it had in the past, and because of changes in the price of corn, which affected the company's subsidy," said Mr Rolando Calderon, an analyst at Santander Investment in Mexico City.

Gruma, Maseca's parent company, recorded a 5.6 per cent increase in sales for the quarter to 2.8bn pesos, and an 8 per cent rise in operat-

ing profits to 213m pesos. Net profits tumbled 41.5 per cent to 198m pesos at the company, which has total debt of 4bn pesos. Analysts said the results were disappointing because of continuing losses at the company's packaged tortilla business.

For the year as a whole, Gruma's sales increased 20 per cent to 11.7bn pesos, while operating profits rose 36 per cent to 980m pesos.

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ING BARINGS

February 1997

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A PEARSON COMPANY

COMPANIES AND FINANCE: THE AMERICAS

CVG draws international interest

Venezuela is selling off much of the industrial complex, reports Raymond Collit

Corporación Venezolana de Guayana was once the show case of Venezuela's industrial prowess and the cornerstone of the state's development strategy.

But now the industrial complex in Venezuela's south-eastern Guayana region is a financial burden that will be largely privatised, the government says.

Assembled 35 years ago to supply Venezuela's petrol industry with steel and aluminium, CVG swelled into a state within a state. Its 38 subsidiaries cover activities from mining and forestry to housing and hydro-energy, including the 10,000MW El Guari hydroelectric plant, the world's second largest. On some estimates, CVG accounts for as much as 5 per cent of GDP, or more than one-third of all non-petroleum exports.

Yet ambitious state development plans gave way to corruption, inefficiency and debt, eroding CVG's comparative cost advantage. Strapped for cash, CVG is to shed all but three of its subsidiaries.

That will leave just the strategic and well-managed hydroelectric company Edelca and the iron and gold mines, Ferrominera and Minerven. Plans to sell Minerven were scrapped following protests by employees and residents in the mining town of Callao.

In spite of its many drawbacks, the aluminium businesses will be the first to be sold in early May, under the lead management of Merrill Lynch. The sale of Sidor, the 3m tonnes a year steel plant, is to follow in June, managed by Salomon Brothers.



CVG's Sidor, the last important state-owned steel plant in Latin America, will be sold in June

A majority share in the package of four companies that make up CVG's aluminium concerns will be offered to a pre-selected group of investors, while a 10 per cent stake in each will be reserved for employees and domestic investors.

The world's leading aluminium producers, including Alcoa and Reynolds of the US, Alcan of Canada, Norsk Hydro of Norway, and Daewoo of Korea, have grouped into five consortia to vie for the world's sixth largest aluminium complex, producing 640,000 tonnes a year.

Industry analysts say CVG's site-specific advantage of a cheap and ample supply of raw materials and hydroelectricity allows for the low production costs of \$1,150 a tonne of aluminium, compared with the industry average of \$1,400 a tonne.

With such comparative

advantages, says Mr Antonio Aspúru, the CVG privatisation co-ordinator, interested buyers are willing to invest \$500m to boost production by 180,000 tonnes.

Yet CVG's aluminium subsidiary carries \$1.5bn of debt, all of which is to remain on the companies' books. Just over half is owed to international creditors, including Japan's Eximbank. The winning bidder will have to pay back the other half, a \$620m debt to the state, over a five-year period.

Unresolved environmental problems may also prove costly. Cleaning up toxic red mud dump sites and the installation of low-emission filters in the aluminium smelters will cost \$110m.

One of the largest obstacles to the aluminium privatisation was apparently over-

come when CVG reached an agreement in principle with Japanese investors holding a 20 per cent stake and veto right in Venalum, the largest of the four companies, with a book value of \$2.2bn.

In exchange for a guaranteed supply of 90,000 tonnes of aluminium a year, the partners agreed to privatisation and future expansion plans, but refused CVG's offers to buy their veto right.

The domestic aluminium processing industry is also eager to secure its supply of raw material. Mr Martin Schoffel, who heads Avial, the chamber of the aluminium industry, wants a minimum 20 per cent equity stake to secure its supply of the raw material. "We have financial backing and are disposed to pay the price of the winning bidder," says Mr Schoffel. Yet most foreign investors are said to oppose

additional equity partners.

Venezuelan companies are also demanding an equity stake in Sidor, which sells two-thirds of its steel on the domestic market. Sidor enjoys the same production cost advantages and has lower debt, at \$700m, and lower environmental liabilities, at \$55m, compared with the aluminium businesses.

However, much of its technology requires a \$650m investment to modernise, according to Arthur D. Little, the consulting firm.

Sidor is the last important state-owned steel plant in Latin America, and has drawn considerable interest from foreign investors, including Mexican groups Hysamex, Siscarta, Imexsa, and Ahmsa-Gan; Usiminas and CSN, of Brazil; Kobe Steel, of Japan; and Dongkuk Steel Mill, of South Korea.

Brazil sets sale price for CVRD

By Jonathan Wheatley in São Paulo

The Brazilian government said yesterday it would sell 45 per cent of voting stock in mining group Companhia Vale do Rio Doce (CVRD) on April 29 for a minimum price of R\$25.57 a share.

The announcement marks a big step forward for Brazil's privatisation programme, which has faced a series of delays caused by political opposition and bureaucracy.

The privatisation will be the biggest to date in Latin America and is expected to be followed by sell-offs in electricity and telecommunications.

The minimum share price values the company at R\$10.36bn (US\$9.85bn), against current market capitalisation of about R\$12bn. The government plans to sell 51 per cent of voting stock, with the April 29 auction to be followed by offers to employees and on local and international stock exchanges.

The minimum price is above that recommended by two groups of consultants hired to advise the government, who had suggested prices of R\$23.20 and R\$25.37 a share.

Mr Antônio Kandir, planning minister, said a higher level had been set following recent increases in CVRD's share price. Ordinary shares rose from R\$27.00 at the end of December to R\$32.10 yesterday morning, when trading was suspended ahead of the announcement.

Yesterday's announcement came hours after CVRD released headline results for 1996, showing net profits up from R\$328m to R\$617m according to Brazilian company law, and up from R\$459m to R\$632m when corrected to take account of inflation of about 10 per cent during the year.

The minimum price was in line with market expectations of between R\$10bn and R\$11bn. "It is anything but a bargain," said Mr Marcelo Mesquita of Garantia, an investment bank in São Paulo. "It means the auction is more likely to be a success. We can expect a dispute between buyers and a sale price above the minimum."

However, doubts remain. Brazil's privatisation council is due to announce today a number of amendments to the tender document. Analysts fear the government may place further restrictions on the participation of individual companies in bidding consortia. Restrictions already apply to participation by CVRD's customers and competitors, and the government plans to retain a "golden share".

AMERICAS NEWS DIGEST

Kmart surges in final quarter

Kmart, the US discount store operator struggling to recover from a long period of poor results, yesterday produced a jump in net profits on continuing operations from \$32m to \$235m in the fourth quarter. Earnings per share were 45 cents, better than the 38 cents expected, and the shares rose \$4 to \$19 1/2 in early trading, a rise of 21 per cent. For the full year, the company reported net profits of \$231m on continuing operations compared with a loss of \$80m last time. Mr Floyd Hall, chairman and chief executive, said he had indicated a year ago that Kmart's financial decline had bottomed out and that the company would return to profitability in fiscal 1998.

These results, which are the best earnings from continuing operations in the past four years, make good on that promise to our shareholders," he said. One disappointment in the fourth-quarter was a 2 per cent decline in sales from \$8.9bn to \$8.7bn. Mr Hall said the challenge this year would be to improve marketing and operations to drive sales upwards. The profit increase was driven mainly by cost-cutting. Selling, general and administrative expenses fell from 19.7 per cent of fourth-quarter sales to 17.4 per cent, lifting profit margins.

Richard Tomkins, New York

RBC ahead 12% to C\$399m

A strengthening economy and high capital markets activity helped the Royal Bank of Canada to post a 12 per cent gain in first-quarter net profit, from C\$356m, or C\$1.01 a share a year earlier, to C\$399m (US\$391.4m), or C\$1.18 a share. Canada's biggest bank said return on equity was 18.9 per cent, up from 18 per cent a year earlier. Domestic profits were up sharply and international results down slightly. The quarter ended January excluded a special restructuring charge of C\$50m, or 9 cents a share after tax, covering the acquisition of a Canadian brokerage firm last year.

Revenue growth exceeded targets, said Mr John Cleghorn, president. The strongest-performing sectors were investment banking and brokerage, and mutual funds business. Total assets at January 31st were C\$234bn, up from C\$204bn a year earlier.

Robert Gibbons, Montreal

Placer rejects gold claim

Placer Dome, the Canadian mining company, has rejected claims by the rival Crystallex International Corporation also from Canada, to the Las Cristinas gold deposit in south-eastern Venezuela, considered one of the largest gold deposits in the region.

Crystallex said on Monday it acquired rights to two blocks of the property by buying a Venezuelan company "whose ownership rights have been confirmed by final and binding decisions" of Venezuela's Supreme Court, in a joint statement with its partner Corporación Venezolana de Guayana (CVG), the Venezuelan state industrial holding company. Placer Dome said the ruling on which claims by Crystallex to Minera Las Cristinas title are based were "wholly irrelevant to the right of tenure of [Corporación Venezolana]".

Placer and CVG plan to develop the Las Cristinas property beginning in May at a cost of \$75m. Placer holds a 70 per cent share in the joint venture, which is a key part of its growth strategy. Raymond Collit, Caracas

Loewen back in black

Loewen Group, the Canadian funeral operator, has reported a sharp increase in fourth-quarter operating income. Net earnings were US\$63.9m, or 97 cents a share, in the three months to Dec 31, compared with a loss of \$78.7m, or \$1.68, a year earlier. Revenues rose from \$58.5m to \$90.6m. However, Loewen's bottom line was dented by outlays of US\$18.7m required to thwart a hostile takeover attempt by Houston-based Service Corporation International (SCI), the world's biggest funeral operator, recently abandoned by SCI.

Earnings for 1996 as a whole were \$10.8m, or 15 cents a share, compared with 1995's loss of \$11.2m, or \$2.35. Last year's loss was due to a pre-tax charge of \$165m to settle a widely publicised lawsuit in Mississippi. Fourth-quarter operating earnings climbed to \$204.1m from \$117.8m, partly reflecting a spate of acquisitions over the past year some of them designed to deflect SCI's pursuit. Acquisitions in 1996 totalled \$1.1bn, and the company forecast it would spend another \$600m-750m this year. Loewen shares gained C\$1 to C\$45.70 at midday in Toronto yesterday.

Bernard Simon, Toronto

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FINANCIAL RESULTS

CONSOLIDATED BALANCE SHEETS

	Dec 31 1996 (SR '000)	Dec 31 1995 (SR '000)
ASSETS		
Cash and Balances with SAMA	1,533,054	1,381,650
Due from Banks	5,851,544	5,139,548
Trading Securities	13,234	77,411
Loans and Advances to Customers (net)	13,249,188	17,381,077
Investment Securities	18,480,082	15,427,510
Fixed Assets (net)	411,829	372,145
Other Assets	1,143,605	1,069,119
TOTAL ASSETS	41,282,536	40,848,460
LIABILITIES & SHAREHOLDERS' FUNDS		
Liabilities		
Customer Deposits	32,476,265	30,892,145
Due to Banks	2,504,349	4,279,457
Other Liabilities	1,985,402	1,600,082
Total Liabilities	36,966,016	36,771,684
Shareholders' Funds		
Share Capital	2,400,000	2,400,000
Statutory Reserves	1,561,324	1,329,834
General Reserve	325,000	325,000
Retained Earnings	30,196	21,942
Total Shareholders' Funds	4,316,520	4,076,776
TOTAL LIABILITIES & S'HOLDERS' FUNDS	41,282,536	40,848,460
CONTRA ACCOUNTS	57,848,312	50,355,318

CONSOLIDATED STATEMENTS OF INCOME

	Dec 31 1996 (SR '000)	Dec 31 1995 (SR '000)
OPERATING INCOME		
Special Commission Income	1,613,299	1,733,364
Foreign Exchange	76,984	80,693
Gain on Trading Securities	15,753	14,897
Income from Investment Securities	1,124,677	1,165,688
Fees & Income from Banking Services	313,195	314,050
Total Operating Income	3,143,908	3,308,692
OPERATING EXPENSES		
Special Commission Expense	1,199,904	1,458,445
Provision for Possible Loan Losses	328,763	127,662
Salaries and Employee Related Costs	478,832	434,136
Rent and Premises Related Costs	62,969	61,084
Depreciation of Fixed Assets	74,300	65,948
Other General and Administrative Expenses	173,457	168,212
Total Operating Expenses	2,318,225	2,315,487
NET OPERATING INCOME	825,683	993,205
Other Income	95,661	78,478
NET INCOME FOR THE YEAR	921,344	1,071,683
EARNINGS PER SHARE	SR 38.39	SR 44.65

Saudi American Bank announced its results for 1996 with net profits of SR 921 million. While profits were down 14% over 1995, the core business operations of the Bank continued to grow with an increase in operating margin before credit losses of 4%. Commenting on the results, newly appointed Managing Director, Robert Eichfeld said, "SAMB is a premier banking institution. It occupies a leading position in the banking industry in the region and its destiny, I believe, is woven into the economic well-being of the Kingdom. I am pleased that our basic indicators all remain sound and am confident that we'll be successful in expanding our franchise and in remaining leaders in product innovation."

The Bank's total assets at SR 41.3 billion remained close to 1995 levels of SR 40.8 billion, while the loan portfolio of SR 13.8 billion declined by 20% during the year due to increased liquidity in the market. The Managing Director stated that "our increased credit costs are a result of the Bank's policy of maintaining high quality assets. We made sure that at the year end all non-performing assets were covered by reserves. Furthermore, the charge reflects introduction of new consumer products whose life cycles generically have higher credit costs in their earlier stages but which still remain highly profitable." The investment portfolio rose by 20% during 1996 to SR 18.5 billion with a continuing emphasis on Saudi and OECD premier grade government securities. Customer deposits of SR 32.5 billion were 5% higher than at year end 1995. "To forecast strong future business momentum and continuing satisfaction with our capital position, the Board has proposed a net dividend of SR 27.50 per share, up 10% over the prior year," stated Mr. Eichfeld.

Saudi American Bank البنك السعودي الأمريكي

Talk to the Leader

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LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE
 NO 00954 OF 1997
 IN THE MATTER OF
 WILLIAM SHIPSTONE &
 COMPANY LIMITED
 AND IN THE MATTER OF
 THE INCOMPETENCY ACT 1996
 Registered Number: 1899622
 Names of Directors:
 Condensed Information and Accounts
 Under Chapter 11
 Accounting Officer made: 19 February 1997
 P.A. LAWRENCE & CO. WILSON
 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917,

COMPANIES AND FINANCE: UK

Eagle Star hit by £160m provision for environmental claims on polluted sites

US charge curbs BAT

By Christopher Brown-Humes and Ross Tieman

BAT Industries disappointed the market yesterday when it reported that 1996 profits had been hit by a £160m (\$260.8m) provision for US environmental claims at its Eagle Star insurance subsidiary.

The charge held group pre-tax profits to £2.49bn, a rise of 5 per cent, against market expectations of between £2.58bn and £2.7bn. The shares fell 18p to 531p.

The group declined to comment further on possible demerger moves or restructuring of its financial services

activities, though it is an open secret that it was involved in merger talks with Commercial Union late last year. Lord Cairns, chairman, said: "We will continue to evaluate business opportunities and issues of corporate structure that will enable us to meet them. We have an open mind."

The group said it was still keen to expand its life insurance operations, but had been put off bidding for Scottish Amicable - currently the subject of an auction involving three companies - by the price.

One analyst suggested that the environment provision might make a solution

involving Eagle Star, which has been a long-running disappointment for BAT, easier.

BAT said the provision reflected a changed method of reserving, based on an analysis of its exposure to certain polluted sites in the US.

Underlying pre-tax profit was up 7 per cent, excluding the environment charge and disposal profits. Operating profits, however, fell 2 per cent to £2.6bn (£2.68bn).

After the provision, trading profits in financial services fell by 3 per cent to £1.02bn. There were strong performances from Allied Dunbar, the UK life operation, and the US insurer,

Farmers, but Eagle Star's profits fell to \$95m (£220m).

The opening of new markets in China and eastern Europe continued to benefit BAT's tobacco business. The volume of cigarettes sold worldwide rose 4 per cent, while profits climbed 7 per cent, in local currency terms, to £1.63bn. The share of the world market held by BAT's brands increased from 12.4 per cent to 12.8 per cent.

Volumes in the US, where the Brown & Williamson subsidiary has a 16.6 per cent market share, continued to fall although the market ceased to decline for the first time in many years.



Lord Cairns: price deterred group from bidding for ScotAm

LEX COMMENT

BAT

The smoke signals emerging from BAT Industries remain typically inscrutable. But it is apparent that a year from now the group could have a different structure and even be facing a different legal environment in the US. Given the shares' 30 per cent discount to the UK market's prospective price/earnings ratio, such moves could add substantial value. BAT's corporate structure is unlikely to change until it transforms its patchy financial services empire.

Rising prices for takeover targets suggest hostile bids are unlikely. But BAT could split off financial services by merging it with a building society - to provide high street distribution for insurance/investment products - or bolstering Eagle Star's competitive position by merging with an insurance company. Either way, financial services would be revitalised and released from tobacco litigation concerns.

Removing litigation concerns altogether would be even better. Liggett's offer to settle a lawsuit last year caused panic among its fellow tobacco companies, but it has done them a favour. It put the possibility of an industry-wide settlement on the agenda, and this is now being discussed by US litigants.

BAT could not agree to a resolution that admitted guilt on the part of tobacco companies - that would open the legal floodgates elsewhere. But the stock market is effectively valuing BAT's firm of US tobacco profits at zero. So it could pay out an awful lot and still keep shareholders happy.



Millennium business boosts computer groups

By Christopher Price

The first tangible benefits for companies tackling the problems surrounding computer systems and the millennium time change emerged yesterday when two computer services groups reported a sharp increase in millennium-related business.

However, both Micro

Focus and Parity said that while the millennium was likely to be the source of hundreds of millions of pounds of revenues for the computer services industry, this would be dwarfed by the requirements likely from companies coping with European Monetary Union.

"Emu is far more challenging and more complex than

the millennium problem," said Mr Tony Muller, chief financial officer of Micro Focus. "The cost to industry could be very large."

Mr Muller's remarks, which were echoed by Parity, will underline concerns over the ability of computer systems to cope with such fundamental changes in time and currencies. Last year,

IBM warned of a severe skill shortage to cope with the transition to Emu due to the timing of the millennium, leading to calls for Emu to be postponed until after the millennium.

However, banks and other organisations have generally reacted sceptically to the computer industry warnings, suspecting it is touting for

extra business.

The rise in millennium-related business helped Micro Focus move into profit during the second half and reduce its annual pre-tax losses. The latter fell 11 per cent to \$5.81m (\$9.47m) in the year to January 31.

Sales slipped slightly to £42m, although they recovered strongly in the

second half.

Millennium business rose from about £1.75m to £4.2m. Mr Muller forecast this could rise to 30 per cent of revenue within two years. Micro Focus shares rose 82p to £11.52.

Parity reported a 54 per cent rise in annual pre-tax profits to £10.1m, on sales up 26 per cent to £162m.

NEWS DIGEST

Steel exports help lift ABP to £94m

Higher volumes of steel exports and a pick-up in the car industry helped Associated British Ports, the UK's largest ports group, lift pre-tax profits 6 per cent to £93.5m (£152m) last year.

The figure was struck after a £3m charge for withdrawing from an engineering joint venture. On an underlying basis it was in line with expectations, while a 19 per cent dividend increase was better than expected.

However, the shares fell 12½p to 306p partly because of profit-taking after a recent strong rise and partly because of fears about the group's interest in developing its distribution network.

Sir Keith Stuart, chairman, said the group wanted to provide more distribution facilities. He stressed that the move was "not a revolutionary extension of what we have done so successfully in ports".

The group maintained its market share of about 24 per cent with total tonnage handled up 3.3 per cent to 118m tonnes.

Operating profits rose 5.5 per cent to £120.7m after stripping out the loss from Universal Pipe Coaters, its joint venture. A two-way improvement in car traffic helped offset a downturn in lower margin animal feed imports because of BSE.

Jane Martinson

Biotech files first product

British Biotech, the UK's biggest biotechnology company, has filed Zacetex, its first product, for pan-European approval. The pancreas disease drug is likely to be given the go-ahead for early next year.

The company also announced reduced pre-tax losses of £1.55m (£2.52m) against £4.05m for the third quarter to January 31, reflecting higher interest income from the proceeds of last year's rights issue, and fees from pharmaceuticals companies for collaborations.

The company is now recruiting country managers for Europe in anticipation of the launch of Zacetex. It also plans to submit the drug to the US Food and Drug Administration this year. Lehman Brothers, the stockbroker, is forecasting peak annual sales of \$300m by 2004.

Daniel Green

Congress Fin buys Burdale

One of the largest US regional banks has bought a majority stake in Burdale Holdings, a small trade finance house, with the aim of using it to create a UK market for asset-based finance.

Congress Financial, a subsidiary of Philadelphia-based CoreStates, is one of the largest US asset-based lenders, providing finance secured against the borrower's stocks or debtors' receivables. It enables companies to raise working capital when their balance sheets and cash flow projections may be too weak for a traditional bank loan.

Burdale's share capital is only £2.5m, but Congress's main injection will be access to funding from CoreStates.

George Graham

BTR in Danish venture

BTR, the manufacturing conglomerate, is linking up with Danfoss Group, Denmark's largest industrial company, in an effort to increase its share of the world's industrial motors market.

Brook Hansen, the BTR offshoot which builds electric motors in Huddersfield, will form a joint venture with Danfoss Drives. The deal gives Brook Hansen access to compact speed-control devices developed by Danfoss, and provides for collaboration in product development. The companies will also co-ordinate worldwide sales efforts, and plan to open a new joint venture plant.

The power drives division accounted for £980m (£1.6bn) of BTR's £3.78bn of sales during 1995 - Brook Hansen's share was £284m.

Mr Paul Buysse, BTR executive director in charge of developing the division, said the alliance would open up "a wealth of opportunities". Danfoss had sales and service companies in more than 100 countries, which would help market the output from Brook's 52 factories worldwide, he said.

Ross Tieman

ICI expansion in Asia

ICI yesterday announced the first of a string of Asian joint ventures to convert MDI, a petrochemical which it plans to make in China, into polyurethane parts for manufacturers.

The UK chemicals group will invest \$24m in a plant at Ulsan in South Korea. It will own 60 per cent and provide MDI, one of its two raw materials. The other 40 per cent will belong to Dongsung Chemical, a South Korean manufacturer of polyols and the leading producer of polyurethanes for the footwear market in Asia.

Overall, ICI aims to invest \$500m in polyurethane production in Asia over the next five years.

The lion's share of this investment will go into a 100,000 tonne a year MDI plant in Shanghai, China. ICI recently signed a letter of intent for this project, which will represent a total investment of between \$500m and \$600m, with Shanghai Tianyuan Chemical Works and Nippon polyurethane.

Jenny Luesby



BAT INDUSTRIES

Dividend up 8%

Preliminary results for the year to 31 December 1996

PRE-TAX PROFIT	£2,495m	+5%
EARNINGS PER SHARE	48.6p	+2%
BASE DIVIDENDS PER SHARE	26.0p	+8%
Additional FID payment	3.5p	

- After last year's 26 per cent increase in pre-tax profit, progress has been more measured in 1996. Pre-tax profit rose by 5 per cent, after an exceptionally high charge of £160 million in respect of US environmental claims reserving at Eagle Star. The underlying profit from continuing operations increased by 7 per cent.
- Tobacco made further progress, building on 1995's outstanding results, with profit up 7 per cent in local currency at £1,634 million.
- Financial services trading profit was £1,181 million, excluding the US environmental run-off claims, with excellent performances from Farmers and Allied Dunbar.
- "Looking forward, both our businesses have an excellent future. Our twin goals are to improve the long term growth prospects of our businesses and to increase shareholder value. We continue to evaluate business opportunities and issues of corporate structure that will enable us to meet them."

Lord Cairns, Chairman

Full financial statements for the year ended 31/12/96 will be delivered to the Registrar of Companies and carry an unqualified audit report. The 1996 Annual Report is being posted to shareholders at the end of March. Copies of the preliminary announcement may be obtained from the Company Secretary, BAT Industries p.l.c., Windsor House, 50 Victoria Street, London SW1R 0NL.

John 150

COMPANIES AND FINANCE: UK

Cadbury unwraps plan for £1bn buys after stake sale

By David Blackwell

Cadbury Schweppes is ready to spend up to £1bn (£1.65bn) on acquisitions following last month's £823m sale of its 51 per cent stake in Coca-Cola Schweppes Beverages, the UK bottling operation.

Shares in the confectionery and soft drinks group rose 19p to 528p yesterday after it reported a 16 per cent lift in annual pre-tax profits to £292m - at the top end of expectations.

The group said the strength of its cash flow, coupled with the CCSB sale proceeds, had given it the flexibility to make further acquisitions if the right opportunity arose.

Mr John Sunderland, chief executive since September, pointed out that the world's top three soft drinks groups accounted for 80 per cent of global sales, while the top six confectionery groups accounted for only 40 per cent. "Clearly there is more potential in confectionery than beverages," he said.

Mr Sunderland described last year's outcome as "a strong performance" from both core business streams. The new management team was tackling the strategic issues and 1997 had started well.

Group sales rose from \$4.78bn to \$5.12bn, with beverage sales at \$2.88bn (\$2.81bn) and confectionery at \$2.24bn (\$2.17bn).

Trading profits at the confectionery division rose 11 per cent to \$267m, and at beverages by 9 per cent to \$445m.

In North America, beverage trading profits were 14 per cent higher at \$220m. Volume sales of Dr Pepper grew by 4 per cent, while Seven Up volumes were down 1.9 per cent. Mr Sunderland said confidence had been restored in Seven Up at both bottler and consumer levels. Sales, after many years of decline, were 1 per cent higher this year.

Beverage trading profits were ahead in all regions except Europe, hit by poor weather and a loss in Portugal.

Trading profits at CCSB - sold to Coca-Cola Enterprises last month - were 3 per cent higher at £134m.

In confectionery, Cadbury UK increased volumes by 5 per cent, taking trading profits up £10m to £118m. Mr Sunderland said market share had increased for the third consecutive year for the first time since 1987. Fines, launched in September, had joined the Mars bar and KitKat in the top three UK chocolate bar brands.

In developing markets including

South Africa and India, previous investment was paying off. Results from new markets, however, were mixed.

Underlying free cash flow rose from £100m to £137m, and borrowings were cut by £117m to £123bn.

Pro forma gearing after the CCSB sale fell from 32 to 47 per cent. Interest payable of £110m (£118m) was covered 6 times. Earnings per share were up to 34.1p (31.3p). A final dividend of 11.8p is proposed, taking the total to 17p (16p).

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends	Total for year	Total last year
Accum Computer	Yr to Dec 31	30	(38.5)	6.31	(12.61)	7.1	(14.8)	
Amco	Yr to Dec 31	0.152	(0.098)	3.75	(1.2)	19.5	(7.9)	
Amco Int'l Ports	Yr to Dec 31	247.2	(228.9)	88.5	(88.4)	18.4	(17.5)	4.25
BAT Inds	Yr to Dec 31	24,472	(22,376)	2,495.6	(2,394.4)	48.5	(47.7)	19.5
BICC	Yr to Dec 31	4,866	(4,362)	644	(571.6)	32.1	(38.3)	8.5
British Biotech	9 mths to Jan 31	9.22	(8.19)	17.5	(15.1)	2.91	(3.1)	
BT	Yr to Nov 30	15.3	(14.7)	2.54	(2.3)	4	(3.5)	
Cadbury Schweppes	Yr to Dec 31	5,115	(4,776)	592.6	(559.4)	34.1	(31.3)	11.8
Fluorid	6 mths to Dec 31	87.2	(52.5)	7.11	(4.05)	10.31	(6.2)	2.2
HTV	Yr to Dec 31	139.3	(135)	9.94	(12.1)	8.5	(10.5)	2.75
Metallgesellschaft	Yr to Dec 31	22.9	(19.8)	5.08	(4.23)	34.4	(28.3)	14.2
Micro Focus	Yr to Jan 31	73.1	(71.3)	5.81	(5.54)	48	(43.6)	
Parity	Yr to Dec 31	162.1	(127.7)	10.1	(6.54)	15.81	(10.34)	2.6
Star-Plus	Yr to Dec 31	13.9	(14)	3.74	(3.85)	12.99	(12.1)	6.156
T&N	Yr to Dec 31	1,966	(2,082)	388.3	(420.14)	75.4	(13.3)	5
Trace Computers	6 mths to Nov 30	9.74	(10.3)	1.45	(0.95)	1.03	(0.95)	nil

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *Comparatives restated. **After exceptional charge. ***After exceptional credit. ****After exceptional loss. *****After exceptional gain. ****Includes Foreign Income Dividend element. ****Includes first interim of 3p in lieu of final will be paid if sufficient distributable reserves are available. ****Second interim, makes 3.5p to date. ****Second interim, makes 6.5p to date. ****Includes 1.14p paid to reduce irrecoverable SGT.

BICC in cables expansion



By Tim Burt

BICC, the cables and construction group, yesterday announced plans to accelerate its investment in data and telecommunications cables as part of a £200m (£226m) expansion drive.

The company, reporting a swing back into profit after greatly reduced exceptional charges, said it would increase spending on higher margin cable operations by 40 per cent this year. Mr Alan Jones, chief executive, said the plans marked a watershed for BICC between restructuring - which has cost the company £241m in the past two years - and an expansion phase.

"We have moved out of the commodity cables industry and virtually completed the necessary rationalisation; now we can go forward," he said.

Mr Jones was speaking after BICC reported a jump, after exceptional charges, from a pre-tax loss of £87m in 1996 to profits of £84m last year.

Profits before exceptional items increased to £129m (£109m) on modestly improved sales of £4.24bn (£4.06bn).

Mr Jones, appointed two years ago to overhaul BICC, said the benefits of his rationalisation programme were beginning to show through, particularly in the North American and European cable operations -

which reported operating profits of £15m (£9m) and £9m (£7m) respectively. He expressed disappointment, however, at the performance of Balfour Beatty, the construction arm, where profits fell from £18m to £10m. Had it not been for contributions from its rail-track renewal and maintenance companies, Balfour Beatty would have reported a loss of £14m.

Mr Jones blamed that deficit on the cost of settling loss-making contracts in the US, where it has withdrawn from general construction.

Improved cash generation and the proceeds of a £170m rights issue last September helped reduce year-end net debt from £305m to £29m.



A STRONG YEAR OF GROWTH AND DEVELOPMENT

"Cadbury Schweppes produced record turnover, profits, margins and earnings and generated £137m free cash in 1996 against a background of organic expansion and acquisition.

1996 RESULTS

	1996 £m	1995 £m	% Change
Sales	5,115	4,776	+ 7
Trading Profit	671	600	+12
Pre-Tax Profit	592	511	+16
Underlying Free Cash Flow	137	100	+37
Earnings per Share (FRS 3)	34.1	31.3	+ 9
Underlying EPS	34.1	29.9	+14
Dividend per Share	17.0	16.0	+ 6

A final dividend of 11.8p is proposed which, with the interim of 5.2p already paid, makes a total of 17p per share for the year.

*Excluding disposal profits in 1995 of £15 million (£14 million after tax).

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1996 saw outstanding performances by our core confectionery companies with product innovation the key to growth in most of our major markets.

At this early stage in the year we are confident of further growth and success in 1997 despite the impact of the stronger pound."

Dominic Cadbury
Dominic Cadbury, Chairman

Cadbury Schweppes

MANAGEMENT PROVEN IN THE MARKETPLACE

T&N's claims charge is £515m

By Tim Burt

T&N, the motor components and specialist engineering group, yesterday attempted to draw a line under its past as one of the UK's largest asbestos producers, by announcing a £515m (£538m) charge to cover personal injury claims and insurance costs.

The company - which last November unveiled an innovative insurance scheme to provide £500m of asbestos cover - said the move would enable it next year to report its first set of "asbestos-free" figures. It also announced a £25m exceptional charge to cover financing options over

49.99 per cent of Kolbenschmidt, the German pistons manufacturer.

Total exceptional items of £540m left the group with pre-tax losses of £366m, against profits of £120m. The one-off charges dwarfed a 15 per cent decline in profits from continuing operations - down from £204m to £172.5m on slightly improved sales of £1.89bn (£1.85bn).

That cut operating margins from 11 to 9 per cent. Sir Colin Hope, chairman, said the decline was temporary, caused by aggressive destocking, rationalisation costs and pricing pressures.

Lex, Page 14

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COMMODITIES AND AGRICULTURE

Oil ends lower after early gains

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Maggie Urry

Oil prices rallied briefly in early trading after surprisingly bullish inventory data from the US. Brent Blend for April delivery, the global benchmark, rose to a high of \$18.75 a barrel at one stage before falling sharply to around \$18.25 in late trading on London's International Petroleum Exchange.

Yesterday's gyrations followed a 58-cent barrel rise on Tuesday to \$19.50.

The early increase was triggered by statistics showing an unexpected drop in US crude oil stocks, one of the most widely watched indicators of short-term price movements. Figures from the American Petroleum Institute recorded a 7.6m barrel fall in US crude oil inventories. Similar statistics from the Energy Information Administration showed a 5.4m barrel fall.

The EIA report also revealed an unexpected 2.3m barrel draw-down of gasoline stocks, although the impact was offset somewhat by higher heating oil stocks.

The sharp swings in short-term inventory movements are behind some of the volatility of oil prices this year. In the opening months of the year oil prices have moved in a \$6 range, with the low for the year of \$18.68 a barrel recorded last Monday and a high of \$24.91 in January.

Gold fell in London fall by \$9.75 a troy ounce to \$350.05 at one point on news that Switzerland would set central bank gold to set up a fund for victims of the Holocaust and other tragedies.

Mr Andy Smith, analyst at Union Bank of Switzerland, calculated that the \$4.7bn fund would require the sale of nearly 570 tonnes of Swiss National Bank gold.

The Swiss said it was "surprised" that the fund would sell the gold over 10 years. Some analysts argued that this could be easily absorbed by a market with a daily turnover of 900 tonnes, but one dealer pointed out: "The [annual] amount is not huge but it is indicative of central bank sentiment towards the market."

Fears of central bank sales have weighed heavily on the gold price recently and on February 12 it was "fixed" in London at a 3-year low of \$336.90 an ounce.

Mr Smith said that, although the Swiss had to hold a referendum on the wider issues, technically it would be possible for the SNB to sell its gold immediately. The central bank might use this as a lever to obtain other changes to Swiss law so it could earn interest on its remaining 2,000 tonnes and remove the requirement that 40 per cent of Switzerland's issued currency be backed by gold.

Coffee prices surged, with May robusta futures on the London International Financial Futures Exchange at a nine-month high. The 6 per cent rise to \$1,800 a tonne follows several weeks of increases as traders take a more gloomy view of the outlook for production.

Mr Lawrence Eagles, commodities analyst with GNI Research, said consumers had rushed to stock up on coffee in anticipation of higher prices. Speculative activity was increasing as funds bet on the effect a shortage of supply could have on the price in months ahead.

Eurogold hits a hostile seam in Turkey

The people of Bergama see Turkey's first gold mine as a poisoned chalice, writes John Barham

The joint-venture company developing Turkey's first gold mine expected to be welcomed with open arms. Turkey is a poor country starved of foreign investment; its mining industry is underdeveloped.

The reality for Eurogold - the company formed by Inmet of Canada, Australia's Normandy Group and BRGM, France's privatised geological survey - has been somewhat different. It has been left fighting hard to win a public relations war that is going terribly wrong.

"Eurogold will take the gold and leave poison for the people," thunders Mr Sefa Tasikan, the mayor of Bergama, a prosperous ancient tourist town near Eurogold's prospective gold mine. "Turkey has enough environmental problems. Why add new problems?"

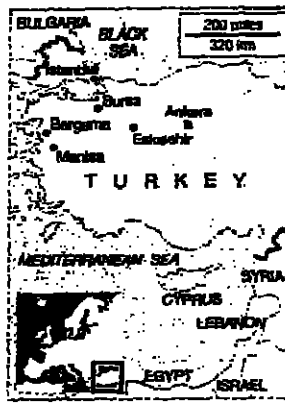
The people of Bergama will never allow them to operate this mine. I asked [Eurogold] to go politely. If not, the people will make them leave."

Other mining companies with promising Turkish prospects are waiting to see whether the Bergama project will go ahead. Once the way is clear, Turkey may have five gold mines producing between 12 and 15 tonnes a year within five years.

Eurogold has spent more than \$15m on its mine near the picturesque Aegean coast 12km from Bergama. It began prospecting in Turkey seven years ago, reasoning that the area's earthquake-prone geology had produced many small deposits containing high concentrations of fine gold. It plans to recover these microscopic granules with a chemical process using cyanide.

The mine will produce at least 3 tonnes of gold a year worth nearly \$40m. It will create 238 permanent jobs and pay \$8.5m a year in taxes and royalties.

Mining companies often arouse opposition, but Eurogold admits it was surprised by the depth of hostility in Turkey. "We can see there is gold in this country," says Mr Jack Testard, Eurogold's general manager. "But we have to improve our communications. There is strong misrepresentation."



Bergama: a neat and prosperous town grown rich on tourism

Mr Testard says the project required approval from 11 ministries and the signatures of 710 senior officials, a process that took five years. During that time seven governments came and went. Protesters demanded local courts block the project, but lost. They appealed and lost all the way to the Supreme Court in Ankara.

In 1993, the government set up an environment ministry. Eurogold had to accept strict controls. It incorporated expensive features, such as a detoxification plant to eliminate cyanide in waste water to less than one part per million.

The dam for waste will be lined with clay and a plastic membrane. The water will be recycled, not released into local rivers. Eurogold has posted a \$1.5m bond to guarantee rehabilitation of the area when the mine closes.

Yet however hard it tries, Eurogold cannot overcome public resistance, hardened by equal measures of ignorance, fear and xenophobia. Mr Testard says the media, initially supportive, has turned hostile. Newspapers carry about 25 articles a week about the project, nearly all negative.

Bergama, site of ancient Pergamon, is a neat and prosperous town grown rich on tourism. Shopkeepers have put up signs saying "No to Cyanide Gold".

"If you were a tourist and heard about the cyanide, would you come?" asks Mr Tasikan. "This is a foreign company. We do not know who they are, who their victims have been around the world. They think we are savages."

Mr Tasikan has contacted Germany's environmental movement and the European parliament to put pressure on Eurogold shareholders and suppliers.

However, independent mining analysts dismiss the protesters' objections. "No [state] official expert has come," says Mr Erdogan Gecik, shopkeeper in a village in the mine. "That is why are suspicious. The minister or an agent [should] come and explain why it would not be bad."

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Western Australia keeps gold tax option open

By Niklaid Tait in Sydney and agencies

No decision has yet been made on whether Western Australia will introduce a state-based gold tax, Mr Richard Court, the state premier, said yesterday. Any decision would be made only after industry consultations, he added.

"If we make a decision to go any further, we will then sit down with the industry - we do not want to do anything that affects the viability of what is Western Australia's

most important export-earning industry," said Mr Court, speaking in Kalgoorlie, the mining town in the centre of the state's goldfields. Australian states have limited revenue-raising powers and depend on grants from the federal government, which in turn has been attempting to constrain expenditure to balance its budget.

The recently re-elected Western Australia state government ruled out a gold royalty in its first term of office, but now faces growing infrastructure requirements.

"We quite deliberately left our options open going into our second term, because we have a responsibility to address all the issues on revenue and expenditure," Mr Court said.

A number of gold miners and industry bodies from the state have warned that a gold royalty in Western Australia - coupled with weaker gold prices and other rising costs - could drive some marginal producers out of operation and deter the smaller exploration companies.

Mr John Quinn, managing director of Australian mining house Newcrest, said growing demand for gold did not necessarily translate into higher prices.

"There is no reason to believe worldwide demand for the yellow metal will not continue to be robust, in part because of expectation of high growth in Asia," Mr Quinn told the gold conference in Kalgoorlie. "I do not think, however, that once a confidently predicted demand is going to result in any substantial rise in price."

Mine production remained steady and the intentions of central bankers were uncertain, Mr Quinn added.

Meanwhile, data suggest average production costs after Australian mines in the third quarter of 1996 had increased to \$280 an ounce. Mr Quinn said, "This represents an increase of nearly 1 per cent on the costs reported in 1995 and is a continuation of a strongly upward trend in costs, which have been in evidence since the early 1980s."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Antismelted Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Sett	Day's	High	Low	Open
Close	1684.5	1677.5-8.0			
Previous	1685.0				
High/Low	1684.5/1672.5				
AM Official	1683.5-5.4	1681-5.5			
Karb close	1672.3				
Open int.	264,870				
Total daily turnover	81,220				

ALUMINIUM ALLOY (\$ per tonne)

	Sett	Day's	High	Low	Open
Close	1530-35	1527-7			
Previous	1537-42				
High/Low	1537-42	1530/1525			
AM Official	1530-40	1528-50			
Karb close	1523-5				
Open int.	6,192				
Total daily turnover	1,575				

LEAD (\$ per tonne)

	Sett	Day's	High	Low	Open
Close	895-7	890-1			
Previous	717-8				
High/Low	894-5	889/890			
AM Official	894-5	887-7.5			
Karb close	890-1				
Open int.	40,133				
Total daily turnover	18,034				

NICKEL (\$ per tonne)

	Sett	Day's	High	Low	Open
Close	7995-8005	8010-10			
Previous	8100-10				
High/Low	8100-10	8025-35			
AM Official	8100-10	8015-20			
Karb close	8015-20				
Open int.	51,111				
Total daily turnover	15,635				

ZINC, special high grade (\$ per tonne)

	Sett	Day's	High	Low	Open
Close	1225-6	1237.5-8.0			
Previous	1245-8				
High/Low	1247-8	1247-8			
AM Official	1237-8	1238-40			
Karb close	1238-40				
Open int.	86,294				
Total daily turnover	32,428				

COPPER, grade A (\$ per tonne)

	Sett	Day's	High	Low	Open
Close	2444-7	2386-6			
Previous	2470-73				
High/Low	2444-7	2402-30			
AM Official	2444-48	2395-55			
Karb close	2374-5				
Open int.	138,400				
Total daily turnover	60,164				

LME ALUMINIUM 3/6/97 1,000B (\$ per tonne)

	Sett	Day's	High	Low	Open
Close	1112.5	1112.5-1115.5			
Previous	1112.5				
High/Low	1112.5	1112.5-1115.5			
AM Official	1112.5	1112.5-1115.5			
Karb close	1112.5				
Open int.	105.9				
Total daily turnover	6,848,812.28				

LME ALUMINIUM 3/6/97 1,000B (\$ per tonne)

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Close	1112.5	1112.5-1115.5			
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Strong rally sees Footsie at new closing high

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

Small pockets of profit-taking and general nervousness ahead of the latest statements from Mr Alan Greenspan, chairman of the US Federal Reserve put London's equity market under pressure for much of yesterday.

But a strong opening by Wall Street gave investors in London renewed confidence and the FTSE 100 index ended the session at a new record close.

The Dow Jones Industrial Average was up around 40 points as London closed for business. It

was responding to comments from the Fed chairman, who told economists prior to his second part testimony to Congress that if analysts' earnings forecasts were correct then Wall Street was properly valued.

Footsie settled 2.4 higher at 4,360.1. The FTSE 250, meanwhile, was never under real pressure and shrugged off any early flurry of selling in the second half, eventually finishing the trading day on a strong note, up 12.0 at a new intra-day and closing record of 4,878.6.

Smaller stocks were the only disappointment, with the SmallCap never able to struggle into positive ground and

finishing 0.1 lower at 2,353.1. Dealers said London had behaved remarkably well during a difficult morning which saw some of the more nervous fund managers book profits in the wake of the worrying steep 66 points fall in the Dow overnight.

The forces said to have driven Wall Street lower included revived concerns about the pace of US economic growth.

There was also some anxiety about the poor performance of gilts, which always looked vulnerable and which eventually fell around a full point at the long end, mirroring some hefty falls in German bunds. The latter, as well as most European debt

instruments, weakened amid renewed concerns about a delay in the single currency timetable.

The regular monthly meeting between Mr Kenneth Clarke, chancellor, and Mr Eddie George, governor of the Bank of England, brought, as expected, no sign of a change in UK interest rates.

Marketmakers said London, after its early retreat, had felt increasingly comfortable as the day wore on. One said: "There was plenty of new money coming into the market and chasing increasingly small amounts of available stock. The institutions are awash with cash and there is more to come as the inflow of FEP (personal equity

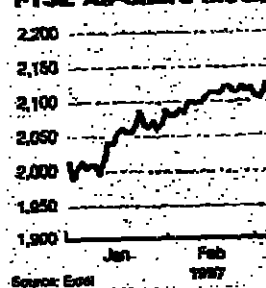
plan) money builds up."

He said the general perception that Wall Street was seriously overvalued was causing few worries in London where the market is increasingly well supported.

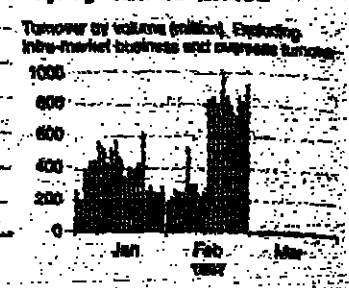
Talk that a bid-merger is being assembled in the insurance sector continued to drive the life and composite stocks. Potential bidders were said to include the Halifax Building Society, soon to assume banking status, as well as a long list of UK, European and Japanese companies.

Turnover at 6pm was 810m shares. Customer business on Monday was a massive £3.5bn, thanks to buy-backs in Southern Electric and Yorkshire Water.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	4360.1	+2.4	FTSE 250	4878.6	+12.0
FTSE 350	2156.5	+2.1	FTSE All-Share	2123.32	+1.50
FTSE All-Share yield	3.54		FTSE All-Share P/E	15.54	

Best performing sectors

1. Alcoholic Beverages	+1.3	1. Pharmaceuticals	+1.1
2. Extractive Industries	+1.1	2. Consumer Goods	+0.7
3. Oil Exploration	+0.9	3. Retailers	+0.4
4. Distributors	+0.8	4. Diversified Industrials	-0.4
5. Mineral Extraction	+0.8		

Worst performing sectors

1. Tobacco	-3.1	1. Tobacco	-3.1
2. Pharmaceuticals	-1.1	2. Pharmaceuticals	-1.1
3. Consumer Goods	-0.7	3. Consumer Goods	-0.7
4. Retailers	-0.4	4. Retailers	-0.4
5. Diversified Industrials	-0.4	5. Diversified Industrials	-0.4

Goldman drugs warning

By Peter John, Lisa Wood
and Joel Kibazo

Leading pharmaceutical groups were hit by a stark re-rating from Goldman Sachs. The broker believes that the many warnings about the strength of sterling have failed to address the full picture and concentrated mainly on the effect on the dollar.

Goldman has, however, gone beyond the dollar and researched the effect of sterling's shift against a group of other currencies - mainly in Europe but including the Japanese yen - which between them account for 40 per cent of earnings.

Analyst Mr John Murphy said: "Against 1996 average rates, the dollar is only 4 per cent down against sterling while rates in Europe and Japan are around 17 per cent down."

On the eve of Glaxo Wellcome's full-year figures and in anticipation that the world's biggest pharmaceuticals group will warn on the continuing currency drain, Goldman has cut earnings figures for the UK's big three.

It has sliced its Glaxo earnings per share estimate by 5 per cent to 55.1p for 1997. And it has reduced its SmithKline Beecham figure by 2.5 per cent to 40.6p.

But Goldman believes the main casualty of the pound's re-rating will be Zeneca. While the other two manufacturers overseas, Zeneca is more of a pure exporter. Goldman has slashed its current year earnings per share forecast for Zeneca by 6.3 per cent to 74.3p.

Glaxo, also affected by one US journal's report of side-effects from extended use of inhaled steroids by elderly people, fell 21 to 1,035p. SmithKline dipped 14 to 919p and Zeneca, which reports figures next Tuesday, fell 19 to 1,363p.

The takeover rumour squeeze among Footsie stocks continued yesterday with much of the energy shifting on to Reed International.

There has been talk recently about a link between Reed and Reuters and also talk of corporate activity between Elsevier, Reed's Dutch arm and Wolters Kluwer of the Netherlands.

The shares jumped 39 to 1,181p, while Reuters fell 15 to 644p on turnover of 1.4m. However, there appeared little strong foundation to the speculation and Reed's turnover was light.

On Tuesday, Reckitt & Coleman and Zeneca were seen as possible bid targets but both stocks fell yesterday.

Mirror Group was steady at 210p as PDM announced it had bought 500,000 shares and raised its stake to 18.1 per cent.

Cadbury Schweppes dipped on the announcement

of its results but later rallied strongly to close a net 19 up at 539p, following a presentation to the City by Mr John Sunderland, its chief executive officer.

Analysts said that Mr Sunderland had impressed the City with a strong exposition of his strategy. The market, in addition to a number of brokers who are very bearish on the stock, has been wary of Cadbury for several reasons, including the prospects for its North American beverages businesses, as well as the confectionery and soft drink group's capacity to issue paper.

Mr Sunderland said the company would pay more attention to enhancing shareholder value. Analysts said that the introduction of "value management" - that is, running the portfolio of businesses for longer term

shareholder value rather than shorter term earnings growth - was positive.

Mr David Lang, food manufacturing analyst at Henderson Crosthwaite, said this was the first time that Mr Sunderland had told the City what he stood for.

Mr Lang said: "The market was pleased by the introduction of value management but he will have to demonstrate that the North American beverage business can hold market share against Coca Cola and Pepsi."

Engineering group FKI was boosted by favourable news from the US together with a broker's recommendation. The shares ended the session 4 1/2 ahead at 190p, after busy trade of 4.1m.

Positive news on housing starts in the US were said to be one of the factors driving the shares yesterday. The group's US hardware divi-

sion, responsible for a large part of the group's US earnings, is said to be benefiting from the increased building activity.

Sentiment was further enhanced by UBS reiterating its positive stance on the shares. Analysts at the securities house suggest investors buy the shares for the "improvement in the quality of earnings and initial positive indications from the recent Hawker Siddely acquisition".

Compass Group fell 2 1/2 to 715p following the announcement that Accor is selling just over half of its 21.5 per cent stake in the contract catering group. Dresdner Kleinwort Benson started accepting tenders from institutions yesterday. The price range for the stock is between 69p and 720p.

Accor has agreed that it will not sell any more Compass stock for 12 months but there was concern that the French group may seek to amend the terms before then.

J D Wetherspoon hardened 10 to 1,157p following positive comment over its results. NatWest Securities moved the stock from a "hold" to an "add".

BAT Industries slid 18 to 531p as the tobacco and insurance conglomerate produced figures at the bottom of the range of analysts' forecasts because of a £180m provision for Eagle Star.

Oil shares were firm as the underlying oil price began to offset by a reversal of the dollar against sterling. BP lifted 5 to 692p and Shell Transport 7 to 1,063p, but the biggest gains were seen among exploration and production stocks. British-Borneo recovered 33 1/2 to 1,250p and Enterprise 14 to 625p.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFFB) CDS per full index point

	Open	Sett	Price	Change	High	Low	Est. vol	Open
Mar	4333.0	4348.0	+8.0	4367.0	4326.0	15388	58155	58155
Jun	4350.0	4367.5	+5.5	4383.5	4347.5	3465	10234	10234
Sep	4363.0	4383.0	+6.0	4393.0	4353.0	10	2317	2317

FTSE 250 INDEX FUTURES (LFFB) £10 per full index point

	Open	Sett	Price	Change	High	Low	Est. vol	Open
Mar	4860.0	4880.0	+10.0	4893.0	4860.0	380	8228	8228
Jun	4700.0	4701.0	0.0	4701.0	4700.0	380	180	180

FTSE 100 INDEX OPTION (LFFB) £10 per full index point

	Open	Sett	Price	Change	High	Low	Est. vol	Open
Mar	4333.0	4348.0	+8.0	4367.0	4326.0	15388	58155	58155
Jun	4350.0	4367.5	+5.5	4383.5	4347.5	3465	10234	10234
Sep	4363.0	4383.0	+6.0	4393.0	4353.0	10	2317	2317

EURO STYLE FTSE 100 INDEX OPTION (LFFB) £10 per full index point

	Open	Sett	Price	Change	High	Low	Est. vol	Open
Mar	4333.0	4348.0	+8.0	4367.0	4326.0	15388	58155	58155
Jun	4350.0	4367.5	+5.5	4383.5	4347.5	3465	10234	10234
Sep	4363.0	4383.0	+6.0	4393.0	4353.0	10	2317	2317

Trading Volume

Major Stocks Yesterday

	Open	Sett	Price	Change	High	Low	Est. vol	Open
31 ASDA Group	118.00	119.00	+1.00					
32 ASDA Group	118.00	119.00	+1.00					
33 ASDA Group	118.00	119.00	+1.00					
34 ASDA Group	118.00	119.00	+1.00					
35 ASDA Group	118.00	119.00	+1.00					

FT GOLD MINES INDEX

	Open	Sett	Price	Change	High	Low	Est. vol	Open
Mar	1045.00	1045.00	0.00					
Jun	1045.00	1045.00	0.00					
Sep	1045.00	1045.00	0.00					

FTSE Actuaries Share Indices

	Open	Sett	Price	Change	High	Low	Est. vol	Open
Mar	4333.0	4348.0	+8.0	4367.0	4326.0	15388	58155	58155
Jun	4350.0	4367.5	+5.5	4383.5	4347.5	3465	10234	10234
Sep	4363.0	4383.0	+6.0	4393.0	4353.0	10	2317	2317

FTSE Actuaries Industry Sectors

	Open	Sett	Price	Change	High	Low	Est. vol	Open
10 MINERAL EXTRACTION	4045.95	4045.95	0.00					
11 Extractive Industries	4070.50	4070.50	0.00					
12 Oil Exploration	4198.80	4198.80	0.00					
13 Oil Exploration & Production	4198.80	4198.80	0.00					
14 Oil Exploration & Production	4198.80	4198.80	0.00					

Hourly movements

	Open	Sett	Price	Change	High	Low	Est. vol	Open
FTSE 100	4345.5	4357.2	+11.7					
FTSE 250	4863.0	4875.5	+12.5					
FTSE 350	2149.3	2154.5	+5.2					

FTSE 350 Industry baskets

	Open	Sett	Price	Change	High	Low	Est. vol	Open
31 ASDA Group	118.00	119.00	+1.00					
32 ASDA Group	118.00	119.00	+1.00					
33 ASDA Group	118.00	119.00	+1.00					
34 ASDA Group	118.00	119.00	+1.00					
35 ASDA Group	118.00	119.00	+1.00					

FTSE 350 Industry baskets

	Open	Sett	Price	Change	High	Low	Est. vol	Open
31 ASDA Group	118.00	119.00	+1.00					
32 ASDA Group	118.00	119.00	+1.00					
33 ASDA Group	118.00	119.00	+1.00					
34 ASDA Group	118.00	119.00	+1.00					
35 ASDA Group	118.00	119.00	+1.00					

FTSE 350 Industry baskets

	Open	Sett	Price	Change	High	Low	Est. vol	Open
31 ASDA Group	118.00	119.00	+1.00					
32 ASDA Group	118.00	119.00	+1.00					
33 ASDA Group	118.00	119.00	+1.00					
34 ASDA Group	118.00	119.00	+1.00					
35 ASDA Group	118.00	119.00	+1.00					

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The performance of the Portuguese economy in 1996 provided a very positive impact on the Lisbon Stock Exchange, with the BVL 30 Index rising 34.8 %.

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The BVL 30 Index rose 13.2 % in January, while turnover posted a 95.5 % increase, on the same period of last year, to 8 billion USD.

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FINANCIAL TIMES

Continued on next page

NASDAQ NATIONAL MARKET

4 am since March 5

Lat	Long	Ch	Obs
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8°N	130°E	2	0.0
10°N	130°E	3	0.0
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81	$\frac{1}{2}$
77	$\frac{3}{2}$
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67	$\frac{1}{2}$
17	$\frac{1}{2}$
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35	$\frac{3}{2}$
	$+15$

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Adaptive Systems	US\$91.100	-	28,715	11,275	10,25	Motorc Internet	US\$89.125	-	10,00	11,25	-
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Thursday March 6 1997

Arrests have prompted motor manufacturers to review purchasing procedures, although suppliers claim opportunities for kickbacks are diminishing. Haig Simonian reports

Carmakers go on ethical alert

Motor manufacturers on both sides of the Atlantic are undertaking emergency reviews of their purchasing procedures after allegations of corruption in the procurement operations of one of the world's biggest suppliers.

The reviews follow the arrest of prosecutors in Switzerland and Germany of at least two managers in conjunction with allegations that employees of Volkswagen, Europe's biggest armaker, conspired to inflate the price of a contract in return for kickbacks. Full-scale reviews on the vexed issues of confidentiality and intellectual property rights took place after the defection of eight leading executives from General Motors for Volkswagen in 1993, and the impact now could be similar.

Indeed, senior executives at a number of leading European supply companies say the practice of giving kickbacks to purchasing managers in return for contracts remains ingrained in the European motor industry, in spite of widespread attempts to eradicate such practices in recent years. Opel, GM's German subsidiary, is also investigating bribery allegations.

"We've never penetrated some continental European markets as much as we would have liked, and always wondered why," says the European marketing head of one leading UK motor industry

supplier. "The Italian components business is largely controlled by Fiat, while in France we've never been able to decide whether the barriers have been corruption or just nationalism. But we've known corruption was one of the causes in Germany," he says.

By contrast to the new focus on corruption in Europe, kickbacks appear less prevalent in Japan. The reasons may lie in the strong horizontal links between parts makers and car companies, which often own shares in their "captive" supply companies.

"It is highly likely that if a parts maker were asked to pay a bribe, it would discuss the matter with its 'parent' company and news of the request would spread through the industry," says one Japanese executive.

The latest inquiries have stemmed from a row late last year between VW and ABB, the Swiss-Swedish industrial group, over allegations that ABB employees agreed to pay bribes to win an order for automated equipment for the new paint shop at VW's Skoda subsidiary in the Czech Republic.

VW has instigated a wide-ranging internal investigation, leading to staff suspensions in its purchasing department. The company and ABB have also provided enough evidence for criminal investigations in Zurich and

Braunschweig, the administrative centre nearest VW's north German headquarters.

Some suppliers argue the potential for corruption in the industry was decreasing, even before the introduction of new codes of ethics, such as that at GM.

They claim strategic changes under way in the industry, which have altered the balance of power between carmakers and their suppliers, may have made suppliers less likely to offer bribes and more resistant to attempts to extort them.

"The rationalisation of the components industry, which has been partly triggered by carmakers' desire to deal with fewer, bigger partners, is creating a new breed of supply company which has the resources to police its activities more effectively than the small or medium-sized family-owned suppliers typical in Germany," says one German purchasing manager.

One recommendation is for companies to commit themselves to informing the police whenever an employee is believed to have paid or received a bribe. Generally, such cases have been dealt with by immediate dismissal, without bringing in the police.

"Only by immediately reporting such incidents to the authorities can kickbacks be eradicated for good," says one senior industry executive.



Renault closure highlights over-capacity

Fierce protests by workers blockading a Belgian car plant which the French automotive group Renault intends to close in July, highlight a deepening crisis and over-capacity crisis facing the European motor industry, writes John Griffiths.

The decision by Renault to close its Vilvoorde plant near Brussels, with the loss of around 3,000 jobs, has led to appeals

from Belgium's prime minister, Mr Jean-Luc Dehaene, to his French counterpart, Mr Alain Juppé, to prevent closure. French car unions, fearing the loss of further jobs within Renault plants in France itself, are mounting a number of protests.

The French car industry, primarily Renault and PSA Peugeot/Citroen, is increasingly des-

perate to cut costs but is still smarting from French government rejections of its pleas for help to fund a big slimming-down of the country's car workforce through early retirement and voluntary redundancies.

The Belgian furore coincides with decisions by Ford and Fiat to slim down or close car and truck plants in the UK. ● Europe's profits squeeze, P3

Welcome to FTauto

Welcome to the first issue of the Financial Times Review of the Automotive Industry, the FT's new regular survey of developments in the industry worldwide.

Due to appear four times a year, FTauto will complement the FT's daily coverage of the industry, bringing new insights into the main developments affecting the industry and its suppliers and customers worldwide.

This issue, timed to coincide with this week's important Geneva motor show, takes a special look at the problems of over-capacity affecting the industry in Europe and at the way in which manufacturers are responding. Subsequent issues will examine the industry in other important world manufacturing centres.

Sections within each issue will also look at the individuals driving this most competitive of businesses forward, at the new technologies being developed to increase the safety, reliability and comfort of vehicles, at the advances being made in manufacturing technologies, and at the pressures being exerted throughout the supply and financing chains.

Future issues of FTauto are planned for June 5, September 4 and December 4. Comments from readers - those working within the industry or customers - on matters arising from this issue or of relevance to future issues are welcomed and should be sent to: The Editor, FT Review of the Automotive Industry, FT Surveys, Number One Southwark Bridge, London SE1 9HL.

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People

Don't be fooled by new public image

During less than two years in his job as chairman of Daimler-Benz, Mr Jürgen Schrempp has emerged as the most controversial manager in Germany.

He was never part of Germany's corporate elite, with their upper middle-class backgrounds, conservative politics, and gentle manners. The chairman of one of Germany's largest industrial groups once privately described Mr Schrempp as "a young boy who is still wet behind the ears". This pretty much summed up the German establishment view of the enigmatic figure of the corporate sector.

The perception has changed since because Mr Schrempp tackled the most pressing problems of Germany's largest industrial concern in a way that few outsiders, let alone insiders, would have thought possible. He pulled the company out of its unprofitable industrial and energy interests and, most controversially, abandoned its regional commercial aircraft business when he stopped financial support for Fokker, the Dutch group, before selling off the majority of Dornier.

Outside Germany, Mr Schrempp

was more highly regarded from the outset. Mr Jack Welch, chairman of General Electric, of the US, sees Mr Schrempp as one of a new generation of German managers who is not afraid to break old taboos.

Inside Germany, many have underestimated the man who started his working life as a car mechanic at Mercedes-Benz. He later spent many years working for Mercedes in South Africa, and in the late 1980s he became chairman of Daimler-Benz Aerospace (Dasa). In 1995, he took over from Mr Edzard Reuter as chairman of Daimler-Benz.

His fiercest rival for the job was Mr Helmut Werner, chairman of Mercedes-Benz, with whom Mr Schrempp shared an uneasy working relationship until Mr Werner's resignation at the beginning of this year. On one occasion last year, during a public reception, a cigar-smoking Mr Schrempp put his arms around Mr Werner, who appeared distinctly uncomfortable in Mr Schrempp's tight grip. Alluding to a rumour circulating at the time - according to which Mr Werner would take over as chairman of Daimler's supervisory

board - Mr Schrempp was reported to have told Mr Werner that evening: "Last night I dreamt that you were sacking me, rather than me sacking you."

Mr Werner embodies a very different type of manager. He is a suave and elegant man, impeccably dressed, a natural orator, who fits in well with the country's industrial elite. Unlike Mr Schrempp, Mr Werner was not a life-long Daimler's career man; he was at Continental, the German tyre company, before joining Mercedes in the early 1990s.

Mr Werner left Mercedes in January of his own accord after losing the power battle with Mr Schrempp. He would have had little choice other than to accept the dubious title of deputy chairman of Daimler-Benz. With not much more to sell off - except perhaps some smaller industrial interests - Mr Schrempp will now devote his attention to managing the operational business, which essentially consists of making



Jürgen Schrempp: change of tactics, but still the tough man of German industry

cars, trucks, aeroplanes and trains.

Since his appointment to the top job at Daimler, Mr Schrempp has mellowed his public image. He is still a proponent of shareholder value, but no longer uses the term so as to avoid offending his German workforce. But these are only outward appearances and tactics. Mr Schrempp remains the most aggressive top executive of his generation in Germany.

Wolfgang Münchau

Companies

Full speed ahead to join global market

M&A activity is strong in the motor components industry at a time when manufacturers are chasing new opportunities, says John Griffiths

Leading members of the automotive components industry, all rapidly acquiring global capability, are showing no signs of applying the brakes in their hot pursuit of carmakers into emerging markets.

Europe's carmakers and suppliers have no option but to look outside their traditional territories if they want to retain their long-term interest, says Mr Steve Utting, a partner in accountants Price Waterhouse, whose European automotive team has just completed a survey* of merger and acquisition (M&A) activity.

Some 310 such transactions took place within the European vehicle and components sectors last year, with a declared value of \$7.3bn, according to the survey. But Mr Utting maintains that their true value could be double this, as the value of some of the larger continental European deals traditionally is not disclosed.

Of the total, 176 were within the components industry, with a declared value of \$5.9bn. Significantly, 46 of them involved takeovers by rapidly-expanding North American groups. "We are concerned that some European businesses may get left behind through failing to recognise the pace of change, and the need to exploit the opportunities presented by the emerging markets of Asia, South America and India," warns Mr Utting. Despite the large numbers of mergers and acquisitions which have already taken place, Price Waterhouse still sees plenty

of scope for more, particularly among Germany's family-owned and conservatively-run "Mittelstand" companies - those which belong in the small and medium-sized sector.

The effects of many of last year's mergers and acquisitions are destined to reverberate around the world. The merger of Lucas Industries of the UK and Varta of the US has catapulted the group into the world's top 10 suppliers, and has created a powerful new international force in braking, diesel engines, fuel systems and electronics.

The £1bn acquisition by Robert Bosch, of Germany, of AlliedSignal's global brakes business, Johnson Controls' \$263m purchase of Prince Automotive, the vehicles interior company, and other big deals are helping to reshape the world automotive components business into one where a predicted 25 to 30 "mega-suppliers" will dominate the business by early next century.

According to the authors of a Financial Times management report** to be published shortly, the declared value of mergers worldwide this year is likely to rise to around \$15bn. "One thing is certain, companies today must grow to remain competitive, or die," warns the report, which forecasts that by the end of the decade some 450 suppliers, most with turnovers over \$100m, will go out of business. A further 375 will be acquired.

Some within the automotive industry see dangers in the current acquisitions cli-

mate, arguing that strategic alliances, sometimes only temporary measures to pursue a specific project, can often be a better solution.

Acquisitions are in many cases costing the purchaser too much and diverting resources from research and development and capital investments, suggests Mr Tom Stallkamp, Chrysler's head of purchasing.

Behind Mr Stallkamp's remarks, however, may lie other concerns, shared by other vehicle manufacturers. In much the same way a food supermarket chain have become more powerful than food producers, car makers are beginning to worry that the concentration of the component manufacturers into the hands of a few dozen "mega-suppliers" - a trend which has actually been encouraged by vehicle makers - could eventually see carmakers being held ransom in the case of a serious dispute. Strategic short-term alliances could at least mitigate such a prospect.

It has not stopped manufacturers continuing their components rationalisation process. By the end of next year, Ford will have cut its direct suppliers to 5,000 globally, from 50,000 a few years ago. But for those who remain in Ford's chain "the opportunities are limitless" according to Mr Jean Mayes, purchasing director for Ford's Europe-based global small and medium-car centre. For companies supplying the current Europe-only

Continued on Page 7

Ford puts new driver behind the Aston Martin wheel

The departure of Mr David Price after less than two years as executive chairman of luxury carmaker Aston Martin has brought the inevitable speculation that he must have fallen out with senior executives at Ford over strategy, writes John Griffiths.

Both Mr Price, 53, and Ford in the US are adamant that this is not the case, that the parting is wholly amicable, and was prepared for well in advance. Indeed, Mr Price was expected to be still heading up Aston Martin's presence at this month's Geneva motor show, before making his farewells and taking up consultancy work outside the motor industry in April.

His departure, in fact, arises primarily from ongoing corporate restructuring under the Ford 2000

globalisation programme. Under the changes, even the the executive chairman's role at Aston Martin will disappear as Dearborn tightens its communications lines with the unit, which reports not to Ford of Europe but directly to Detroit.

The DB7 model is now firmly established in world markets, with output running at around 700 units a year from the Bloxham Mill factory in Oxfordshire. Modest expansion is on the cards for production of the more expensive V8 and Vantage models at Newport Pagnell.

Aston Martin insiders dismiss speculation of a row. They say Mr Price, a Ford veteran of more than 30 years, knew the company's thinking about the role and prospects for the luxury sports carmaker when he took the job.

On his departure, Aston Martin will have a chief executive/managing director. That role is being filled by Mr Bob Dover, chief sports car engineer of Jaguar Cars - also owned by Ford.

After Calvet

Mr Jacques Calvet, chairman of France's PSA Peugeot-Citroën vehicles group and one of the most flamboyant figures on the European motor industry stage for many years, reaches mandatory retirement age in the autumn. Whether he will actually go then is another question.

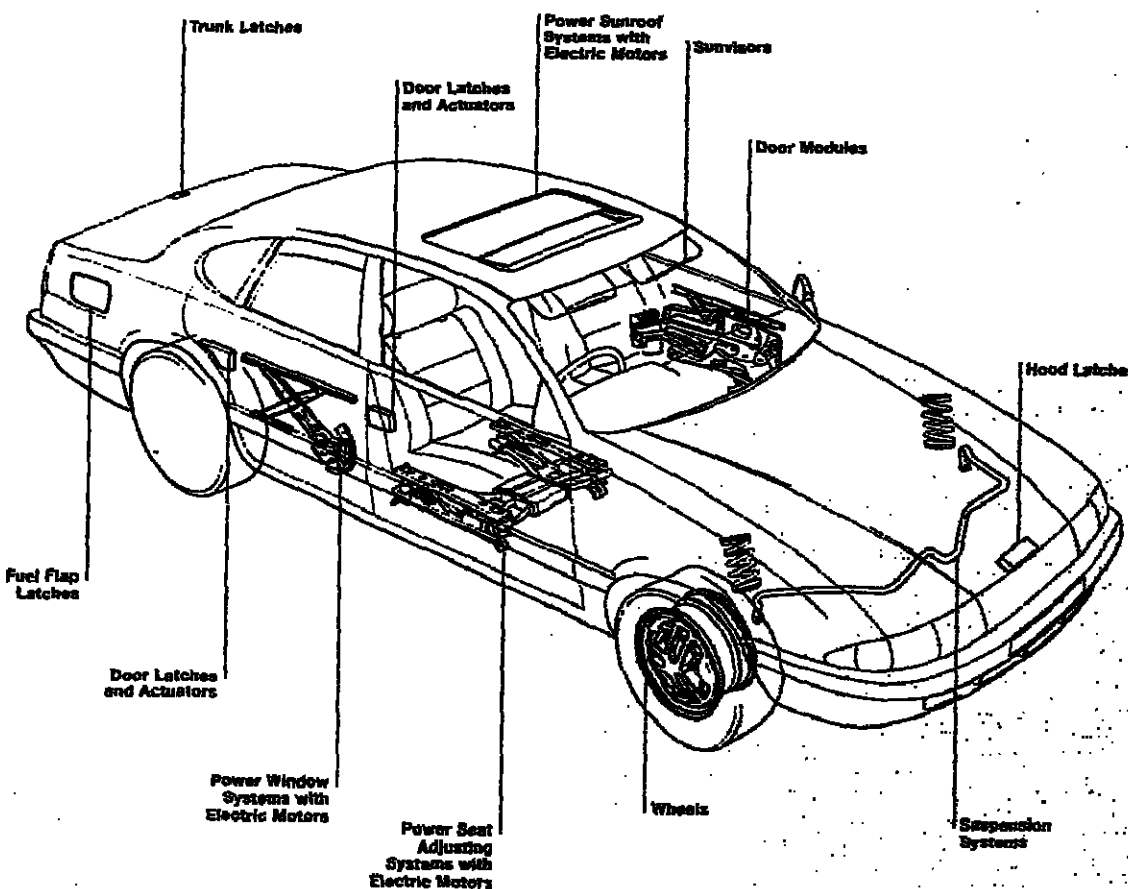
Who will eventually succeed the man who has also held the presidency of the European Automobile Manufacturers Association (ACEA), and who once

described the Japanese "transplant" car factories in the UK as "an aircraft carrier off the coast of Europe", has long been a talking point of the French industry.

Until mid-1995 Mr Jean-Yves Helmer, the young, quietly-spoken head of the cars division, had been regarded as the most likely heir-apparent. Some members of the supervisory board thought otherwise. By early last year, Mr Helmer had left for a job in government and his place in the pecking order had been taken by Mr Jean-Martin Folz, 50.

Several other potential rivals are said to be still in the frame, including Citroën's marketing chief, Mr Luc Epron. However, it is Mr Folz who is now regarded as the man almost certain to succeed.

Rockwell supplies virtually every major car manufacturer with automotive components and systems.



New and updated

The Geneva motor show is one of the traditional launch pads for big new products, and this year's event is no exception, writes John Griffiths. Apart from Mercedes-Benz with its new A-Class small car (pictured on Page 5), Saab and Audi have much at stake with their respective 9-5 and A8 executive models. Meanwhile, Ford is demonstrating the way in which new car markets are fragmenting into niches - and development times for models to fill those niches are shortening dramatically - with the unveiling of its Fiesta-based coupé, the Puma (above).

The Puma, designed by computer in just 135 days, is designed to compete in the small coupé market pioneered by General Motors with its Opel/Vauxhall Tigra. Ford says the model is viable at a production rate of 30,000 to 40,000 units a year. It will be built only at Cologne.

Saab, in which General Motors has a 50 per cent stake and management control, will be heavily dependent on the 9-5 (below right) if it is to reverse its mounting losses. Saab sold 97,000 cars last year and, with 9-5's help, has set a target of doubling output by the year 2000. The 9-5 is a replacement for the current, ageing top-of-the-range 9000

model, although the latter will be phased out gradually. Audi is replacing its current A8 model with a new version (below left) while sales are still relatively strong, reflecting a vigorous campaign by Volkswagen's up-market brand to increase European sales penetration. Initial production of 130,000 cars a year is planned.



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Focus: European motor industry

Carmakers are having to fight harder for sales, with increased spending on marketing biting deep into budgets already under tight scrutiny as profits slip, or fail to materialise. Haig Simonian reports

The outlook for Europe's car market this year promises a cocktail of opposites: relatively strong demand mixed with generally abysmal profitability.

Sales this year should modestly exceed western Europe's 12.82m registrations in 1996. Last year's total, although below the peak of 13.5m in 1991, was still reasonably buoyant compared with the recent nadir of 11.96m units in 1983.

In spite of relatively robust sales, 1996 told a different tale in terms of profits. The earnings statements trickling out of Europe's leading volume carmakers are showing a sea of red ink to illustrate the difficult trading conditions of the past 12 months.

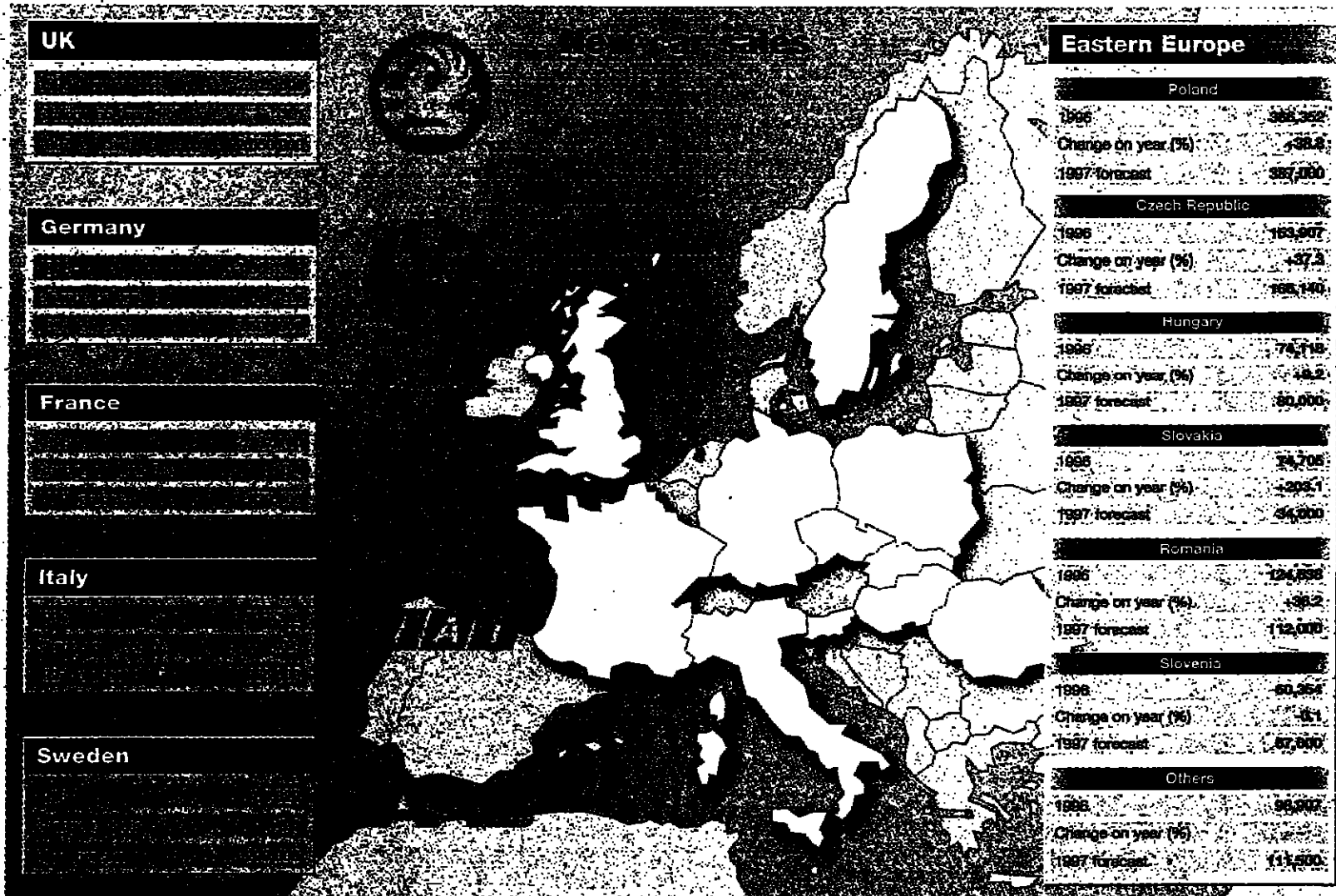
Ford led the European loss-makers, with a net figure of \$281m last year compared with a profit of \$116m the previous year. Results at Renault, which will report later this month, will probably be worse. Ms Sabine Blümel, motor industry analyst at DMI Stiege, an investment bank in London, upped her forecast loss for 1996 to FF1.95bn after the company last month warned that losses in its automotive division would be "considerably higher than generally anticipated by the financial markets". Saab painted an almost equally lamentable picture after losing SEK1.2bn last year.

The results from BMW's Rover subsidiary will be buried in the German group's consolidated figures, making its performance harder to assess. Although BMW has indicated Rover's results should be better than the DaimlerChrysler loss in 1995, the strength of sterling could still cause an upset.

Even many carmakers which remained profitable suffered lower margins. General Motors's Adam Opel subsidiary in Germany said earnings fell from DM363m to a preliminary estimate of DM250 to DM350m last year. Peugeot-Citroën, which is widely regarded as one of Europe's most efficient carmakers, is expected to announce a sharp decline in earnings when it presents its 1996 results next month.

About the only gainers were Europe's upmarket or specialist niche manufacturers. Porsche continued its recovery from the brink of bankruptcy, while Mercedes-Benz continued to raise its profitability on the back of a broader product range.

Among volume manufacturers, only Volkswagen will show substantially improved profits thanks to the turnaround at its Seat and Skoda subsidiaries, better earnings at the core VW brand, and a fine performance from



There's good news and bad

Audi. But VW's group profit margin is still paltry in comparison to its sales, and remains well below the target set by Mr Ferdinand Piëch, chairman.

It is the quality, rather than the volume, of demand which explains the apparent contradiction between higher sales and lower earnings.

Registrations in many markets were stronger than expected last year, with western Europe as a whole growing 6.6 per cent compared with 1995.

But much of the upturn was stimulated by government or industry incentives. The impact of such artificial factors was most evident in France, where pricing discipline virtually collapsed after motorists became accustomed to the mix of government and industry handouts to encourage them to trade in their elderly cars for new ones.

Attempts by manufacturers to eradicate consumer expectations of instant discounts after the incentives expired

last September have achieved little. Although a number of car companies cut prices on their most popular smaller models, demand has slumped. New car sales collapsed by 33.7 per cent in January, while margins remain under extreme pressure.

The situation in France is an extreme example of the malaise which will confront carmakers in much of Europe this year as consumers demand inducements to buy new vehicles.

The only way to maintain demand will be through measures which will affect margins. The most innocuous will be to continue stressing value in new volume models. Retail prices will either have to be maintained when a model is replaced, or, if increased, justified by higher levels of equipment on the successor product.

Car companies will also have to continue raising their spending on marketing. As competition has sharpened

with more manufacturers and products in the field, car companies have had to fight harder to be heard: that means more advertising - including greater use of expensive television; more sponsorship, including greater use of sports; and more imagination in general.

While raising marketing budgets may help to sell vehicles in the short term, long-term profitability will remain under pressure because greater competition will lead to ever-shorter model cycles. Additional pressure on resources will come from the fact that carmakers will have to broaden the ranges to exploit whatever products of relatively strong demand emerge for new niche products.

The need for product diversification and lower cycle times will, however, take its toll on earnings. Take image-building convertibles. From virtual extinction, the genre has re-emerged to the extent that most manufacturers feel obliged to offer some form of slinky two-seater or coupé. It is unclear where all the customers will come from.

Even in the rare case when a manufacturer discovers a new niche, the value of innovation is being eroded. Renault's new Mégane Scenic - a mid-sized, multi-purpose vehicle which was justifiably voted European car of the year by leading motoring publications last year - is enjoying a sales boom.

However, the first serious competitors to the vehicle should be on the road by 1998, reducing the Mégane Scenic's monopoly to two years at best. And when the newcomers from Opel, Fiat, VW and Ford arrive, the market is likely to be saturated.

Carmakers will react by continuing to look for higher productivity in manufacturing. The scope, however, is limited by nearly a decade of taking the "fat" out of manufacturing.

Hence the industry's current focus on leaner sales and distribution. Carmakers have already started to slim down their distribution systems by rationalising storage and trying to supply vehicles to dealers more quickly.

The focus now is on dealers, with steps to streamline and upgrade networks and to encourage outlets to invest in better premises and service. While such improvements are long overdue in many cases, they are not the sole answer to the problem.

The real solution is to cut capacity, either by takeovers, mergers or factory closures. And that is precisely what manufacturers are loath to do.

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Focus: European motor industry

Battles for survival continue

Volvo and Saab see sales dip as development costs continue to rise, reports Hugh Carnegie

SWEDEN

For Volvo and Saab, Sweden's much-cherished carmakers, the 1990s to date have been a hard struggle to survive as small players in an industry burdened with worldwide overcapacity and dominated by giant producers. It is a battle that is far from over yet.

The performance of the two companies in 1996 underlined the difficulties they still face. Both suffered a slight fall in vehicle sales at a time when increasing volumes is vital to securing their future. Both saw their financial performance held back by high development and marketing costs - the classic handicap of smaller producers which lack the economies of scale of the big manufacturers.

For Volvo, there was some

cheer. Although the number of vehicles sold fell from 374,600 in 1995 to 368,300 last year, earnings improved from losses in the last quarter of 1995 and the first quarter of 1996 to an operating profit of SKr325m in the fourth quarter of the year.

The full-year operating profit of SKr1.5bn was a big advance on the 1995 return of SKr1bn. But the operating margin (profits against sales) was just 1.8 per cent - far short of Volvo's own target of an average margin of 7 per cent over an industry cycle.

At Saab Automobile - managed and half-owned by General Motors of the US since 1989 - the number of cars sold slipped from 98,700 to 98,000. But tough downward pressure on prices and a big marketing spend to bolster Saab against its competitors meant the company

crashed to a full-year net loss of SKr1.2bn from a break-even result in 1995.

In the years since GM has been in charge - its owner partner is Investor, the main Wallenberg family investment company - Saab has made a significant profit in only one year. It has accumulated losses in the period of more than SKr10bn, while the two owners have been forced to stump up capital injections of SKr1.5bn.

As if that were not enough, Mr Robert Hendry, the chief executive sent in by GM from Detroit last year to make a final attempt to turn Saab around, has warned of a worse financial performance this year and another possible full-year loss in 1998. He says Saab should make acceptable profits in the year 2000...if all goes to plan.

Volvo and Saab have in common the aim to achieve critical mass by increasing their volumes and sharpening their appeal to buyers of high-priced cars. Achieving that combination should -

finally - earn them decent profits. But the two companies are on distinct paths to the same goal.

Volvo, where Mr Leif Johansson is to take over as chief executive, is determined to remain independent following its dramatic rejection in late 1993 of a merger with Renault, of France. The group is now focused on cars and trucks, and has big financial resources following a SKr40bn sell-off of non-core assets. Volvo cars has important industrial partnerships with Mitsubishi, of Japan, in the Netherlands, and with TWR, the British sports car specialist. But it has set out to avoid a strategic merger with another manufacturer.

Saab, by contrast, is already part of the great GM organisation - the world's biggest carmaker. It wants to gain the maximum cost advantage out of its links with GM, which Mr Hendry says have not yet been realised after more than seven years in harness. At the same time, however, Saab

has to maintain its individual, exclusive brand identity if its cars are not simply to be seen as re-badged GM vehicles not worth the premium price.

So what are the survival prospects of the two Swedish companies?

Both have set ambitious targets for increasing volumes by the turn of the century, with new models aimed at the same core markets: premium car buyers in the US, UK, Germany, France, Italy and Japan. Sweden remains a big market for both Volvo and Saab, but is likely to decline in relative importance as their position is eroded at home by growing imports and outgrown in prominence by other target markets.

Volvo's aim is to raise its volumes to some 500,000 cars a year, while cutting the number of "platforms" - chassis - the company makes from three to two. The idea is to spin more versions off a smaller platform base, thus increasing returns.



Leif Johansson: he is moving from Electrolux to take over as Volvo's chief executive

The group took an important step in 1996 with the launch of its new mid-sized S40 sedan and V40 estate models made at the Dutch plant jointly run with Mitsubishi. Output should rise to 110,000 vehicles this year. The bigger, successful 850 series has been updated and rebadged as the S70 and V70. Volvo is also in the process of bringing to market a coupe and cabriolet - the C70 - made in a joint-venture with TWR.

Other sporty and

four-wheel-drive versions of the 850 are being sold, as well as the 900 series. Volvo's biggest car, which will in due course be phased out.

Saab, meanwhile, will this year launch its 9-5 sedan to augment its existing 900 and 9000 models. An estate version of the 9-5 will follow next year as Saab aims to increase its volumes to 150,000 cars a year by the year 2000.

Both companies insist their plans will bear fruit.

Volvo appears to have come furthest in shaping and building its strategy. But Saab, under its third chief executive since GM came in, still seems to be struggling to sort out its goals as a GM offshoot. Its brand focus keeps shifting, synergies with GM have been slow to come and plans for a broader model range have been shelved.

The future for both companies still looks uncertain. But Saab perhaps has the most to prove.

Salesmen are wearing some sunny smiles

The government's efforts to revitalise demand are hitting the target, says Paul Betts

ITALY

The Italian car industry has enjoyed an encouraging start to the year. While most other sectors of the economy have been struggling with low growth and pressure from the government's fiscal squeeze, car showrooms throughout the country have been buzzing with activity.

The industry, and especially the Turin-based Fiat group which accounted for 44 per cent of new Italian car registrations last year, is becoming increasingly optimistic that recent government incentives to revitalise this important sector of the economy will help boost domestic car demand by an additional 200,000 to 250,000 cars this year.

In contrast with other European markets, new car registrations rose in Italy by more than 4 per cent to 207,000 vehicles in January. This strong performance at a time when sales on the European market as a whole fell by 3 per cent in January (with a particularly sharp drop of 33.6 per cent in France but also a 7 per cent decline in Germany) is largely the result of both the practical and psychological impact of the new government incentives.

All the signs are that registration figures will increase even more sharply in February as January orders are converted into deliveries. Fiat said its new orders had risen by as much as 35 per cent rise in January.

After hesitating for months last year, the centre-left administration of Prime Minister Romano Prodi announced the support package just before Christmas. Similar to the incentive programmes launched in other European countries, it offers consumers discounts to encourage them to scrap cars over 10 years old and replace them with new ones. The government discounts amount to between 1.5m and 1.2m depending on the size of the car and come on top of any discounts granted by the manufacturer.

"We expect these measures will help return the Italian car market to the 2m-cars-a-year level of the early 1990s after four years of crisis and stagnation," a Fiat official said. New registrations in fact rose only slightly last year to 1.74m cars from 1.73m the year before, and for Fiat 1996 was another difficult year. Its Italian car sales fell by 2.1 per cent and margins came under pressure from fierce competition and price wars combined with the revaluation of the lira.

But the Italian industry already started seeing some movement in the market in December before the new incentives were introduced. In the last month of the year, registrations rose by 12

per cent compared with December 1995. "This suggested that the market was already improving slowly before the new government incentives came into place," said Mr Gian Primo Quagliano, of the Bologna-based Promotor Institute.

The incentive programme is expected to spur the recovery, especially at the lower end of the market.

Italians, whose love for cars verges at times on the passionate, have traditionally renewed their cars on average every six years. The last big renewal came in the four years between 1988 and 1992 when 11.3m cars were renewed - the equivalent of roughly one-third of all cars on the road in Italy. The industry had thus expected a new wave of renewals to start last year. But consumers, worried about the country's economic health, higher taxes and less disposable income, have tended to hang on to their old cars longer than in the past.

In turn, this has left Italy with one of the oldest populations of cars on the road in Europe. The average age of a car driven by Italians is 14 years, compared with five years in the UK. Of the 29.7m cars currently on the road in Italy, only 25 per cent are less than five years old. About 12m cars are 10 years old or more; 1m are more than 20 years old.

The new incentives, which end in September, are thus designed to rejuvenate the country's ageing car fleet at the same time as providing a stimulus for the economy.

Fiat and other volume manufacturers of small cars are widely expected to gain most from the new measures since they are likely to interest small-car owners rather than owners of bigger, more expensive models. Soon after the incentives came into force in January, Fiat announced plans to transfer 1,000 workers from its Rivalta plant in Turin, where it assembles larger models, to its other Turin plant of Mirafiori, where smaller Pandas and Puntos are built, to boost small car output. Last month it announced it was hiring an additional 2,000 workers to meet the increased demand.

Not surprisingly, executive and luxury car manufacturers have been more critical of the government's programme. Germany's Mercedes-Benz and BMW have argued it would have been far better for the government to adopt structural measures, such as reducing the high rate of tax on motoring in Italy rather than resorting to a short-term fix, to revive demand. There are also concerns that demand could slump again once the incentives end later this year. But there are already suggestions that the government may be tempted to extend them.

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Focus: European motor industry

Spluttering start to the new year

Strong exports help overcome concerns about the domestic market, says Haig Simonian

GERMANY

The start of 1997 has offered a mixed message for Germany's carmakers. New registrations fell 4.2 per cent to 264,000 in January, compared with the same month last year. The faltering start contrasts with the German market's punchy 5.9 per cent rise to 3,506,000 units in 1996 on the back of big industry incentives.

Analysts have ascribed January's splutter to rising unemployment and the sluggish economy. Sales may pick up after April, when new taxes will impose penal rates of duty on older vehicles which do not

have catalytic converters.

Meanwhile, any concern about disappointing domestic demand has been overshadowed by bullishness about exports thanks to the strong dollar and, to a lesser extent, sterling.

The D-Mark's relative weakness against both currencies has boosted export prospects for German carmakers in two of their biggest overseas markets.

Last year had already marked a significant turning point in the US, with most manufacturers reporting their best performance since peaking in the mid-1980s. Volkswagen's US sales rose by 22.6 per cent to 165,000 last year; BMW recorded a

13.3 per cent gain to 105,000; Mercedes-Benz registered a 18.4 per cent surge to 90,500.

All three companies, along with Porsche, predict further rises this year.

Mercedes-Benz, which chose January's Detroit motor show to unveil its new mid-sized CLK coupe, will be starting production of M Class sports utility vehicles at its new Alabama plant in May. The M Class, due to reach Europe early next year, is the company's first US-built vehicle, and will spearhead its push into the lucrative sports utility market.

BMW, which is about two years ahead of arch-rival Mercedes-Benz in US production, hopes rising output of its South Carolina-built Z3 convertible will lead to a further rise in sales. Its hopes will be boosted by further Z3 variants, including a coupé and a fiercely-powerful



The Mercedes-Benz A Class goes on public display for the first time at the Geneva motor show

321bhp sports special model.

New models will also characterise the German market as carmakers gear up to unveil their latest wares at the bi-annual Frankfurt motor show in September. Pride of place will be shared between two vehicles: the new Mercedes-Benz A Class – being displayed for the first time at this week's

Geneva show but not due in the showroom until much later – and VW's new fourth-generation Golf.

Some analysts had expected Frankfurt would also provide the showcase for the Golf's biggest rival, the new Opel Astra. However, the signs are that the Astra will not be released until early 1998.

The Golf and the A Class are this year's most important launches from both a product and a corporate point of view. The Golf is unlikely to break much technological ground; that is not on the agenda for the car replacing Europe's top-selling model.

The new Golf's popularity will be one of the crucial fac-

tors in whether VW can maintain its impressive growth in west European sales growth, which took its market share to 17.3 per cent last year from 16.8 per cent in 1995. All four of the group's subsidiaries – including Seat in Spain, previously the weakest – are now firing on all cylinders financially and in product terms. That means 1997 should be another very strong year for VW in sales and earnings.

The A Class, by contrast, is brimming with innovations, such as highly-efficient new petrol and diesel engines. But the challenge for Mercedes-Benz will be to gain public acceptance for the vehicle without compromising the brand's prestige image.

Both cars also symbolise the German motor industry's attempt to meet the broader quest of producing small – and therefore relatively low-margin – vehicles in a high-cost environment.

Mercedes-Benz, which will also build the A Class in Brazil, threatened to move the project abroad unless it won concessions from workers at its Rastatt plant in southern Germany to ensure the new car

could be built profitably.

VW, which faces a huge overhang of labour at its vast Wolfsburg factory in the north, has worked on its manufacturing processes to guarantee the new Golf will be quicker and cheaper to build than its predecessor. The problem, however, is that as each new VW becomes more efficient to build, the company's long-term domestic labour surplus becomes more acute.

Porsche and BMW are also looking for a bumper year. Porsche's share price has surged after bullish recommendations based on strong demand for its new Boxster convertible and its evergreen 911 range. Although replacement of the 911 will eventually cause some disruption, analysts are confident about the group's continuing recovery, especially after its recent decision this year to sub-contract some Boxster production to Valmet, of Finland, to tackle a huge order backlog.

BMW, meanwhile, will be concentrating on the next-generation 3 Series, due early next year. The company is currently devoting much attention to working more closely with Rover, its UK subsidiary.

Tough prices war takes a heavy toll

Rapid pace of new model launches may ease this year, reports David Owen

FRANCE

It is safe to say that 1996 will not go down as a vintage year for the two main French carmakers. A fierce price war, particularly savage in a home market where they still account for more than 50 per cent of new car sales, helped to push Renault deep into the red and to cut first-half profits at Peugeot-Citroën by more than 50 per cent.

This was in spite of the fact that government purchase incentives kept domestic sales high until late in the year, pushing new car registrations for 1996 as a whole to over 2.1m – an improvement of more than 10 per cent over 1995 levels.

With that artificial stimulus now gone, sales have plummeted in a market that remains intensely competitive. In volume terms, analysts are calling for a reduction of up to 10 per cent in 1997 in the French car market, after an eye-catching January decline of more than one-third.

Though currency fluctuations may work more in the manufacturers' favour than in recent times, 1997 already looks like another difficult year. The rapid pace of new model launches may slow somewhat this year, but both companies are nonetheless expected to make some significant product changes.

At Renault, a new version of the Safrane executive model should be launched in France in October, while the replacement of much of the group's range of utility vehicles is also planned.

The extension of the crucial Mégane mid-sized range, meanwhile, is set to continue this spring with the addition of a convertible. The company recently decided to lift output of its innovative Mégane Scénic monospace by more than 40 per cent. The new Espace multi-purpose "people carrier" was launched in France in November.

At Peugeot-Citroën, a replacement for the Citroën ZX is expected to start production at the company's big plant at Rennes, in north-west France, in about May. The Peugeot 806 is also scheduled for a facelift. The next critical model launch for the company, however, is generally considered to be the Peugeot 206, which is not expected until next year.

The production of both companies is still widely thought to be too heavily concentrated in France, and

both are felt to make too high a proportion of their sales in highly competitive European markets.

Renault's decision to close its Vilvoorde plant in Belgium does not help matters. Its next big advance in overseas output is not foreseen until 1999 when a \$1bn, 120,000-vehicle-a-year Mégane plant is expected to come onstream at Curitiba, southern Brazil. The company is also in discussions about the possible establishment of a Mégane assembly plant in Russia. It says it is on the lookout for other small-scale projects around the world that could be developed with local partners. Peugeot-Citroën is understood to be close to announcing plans of its own for an industrial installation in Brazil.

On the sales front, both companies are aiming to lift the proportion of vehicles they sell outside Europe to about 25 per cent by 2000 from some 15 per cent at present.

With market conditions so testing, pressure to cut costs is likely to remain as intense as ever. Mr Louis Schweitzer, Renault's chairman, last year pledged to cut the average production cost per car by FFfr3,000 – or roughly 8 per cent – by the end of 1997.

Employment levels at the two companies – and the high average age of their employees – are set to come under further scrutiny, even after Vilvoorde. Late last year, it emerged that the two companies were in talks with the government on proposals to cut jobs and reduce the average age of employees through early retirement and other measures.

Renault said at the time that cutting both its workers' average age and its overall number of employees was necessary for the future.

This year will also probably see a change at the top of Peugeot-Citroën, with the inimitable Mr Jacques Calvet, 66, due to hand over command at the end of September. His probable successor is Mr Jean-Martin Folz, 50, who took over as director of the group's car division last April.

In the meantime, the Paris rumour-mill has been working overtime with regard to the present chairman's future plans. Perhaps the most imaginative suggestion – subsequently discounted by Mr Calvet – was that he had offered to return to the world of banking as head of Crédit Lyonnais, the troubled state-owned bank.

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Focus: European motor industry

Back on track for a bumper year

Halewood escapes the axe, but other car plants are heeding the warning. John Griffiths reports

UK

The ghost of conflicts past has returned this year to haunt the UK motor industry. For the first time in over a decade there was talk in January of an all-out strike against one of the UK's leading carmakers, Ford, amid fears of a plant closure – the company's Escort factory on Merseyside.

The closure fears have since been allayed, although substantial job cuts at Halewood are on the way. The fears arose when Halewood learned that it would not build the new "world" Escort due in 1998. Employees have since been told they would be given production of a "multi-activity vehicle" (MAV) version of the new Escort from the year 2000, and in the interim build the old model as a cut-price "Classic" version, working on a single shift.

Assurances have been given that Ford's Transit van plant in Southampton, also the subject of closure speculation, will build the next generation of the vehicle and that its future, too, is secure.

So, once again, the UK motor industry appears back on course and heading for production of comfortably over 1.7m cars this year, the highest since 1973 and within a few hundred thousand units of the industry's all-time record.

The underlying reason for the ghost's reappearance, however, will not go away.

Europe has substantial over-capacity in carmaking, estimated by Ford of Europe chairman Mr Jac Nasser at more than 20 per cent.

Even as west European-based manufacturers close down some capacity, more springs up elsewhere as other companies move in. Daewoo and Suzuki vehicles are already emerging from central and east European plants, and others undoubtedly will follow.

In the face of daunting losses being made by Ford in Europe, Mr Nasser has said

that Halewood's productivity must improve (and some UK government aid is expected) as part of the plant being awarded production of the new MAV.

Implicit in the statement is that if Halewood does not match up, Ford later really will move production elsewhere and carmaking at Halewood will be just a memory.

The effect of the Halewood episode has been to send a slight frisson of unease through every significant car plant in the UK.

The simple reality is that, with the exception of a few small enterprises, such as Vickers' Rolls-Royce Motor Cars, LDV vans and Leyland Trucks, there is no longer a British motor industry as such, only a foreign-owned motor industry based in Britain.

In the case of every plant, from General Motors' Astra-producing facility at Ellesmere Port, a few miles from Halewood on Merseyside, through Nissan's at Sunderland, Toyota's in Derbyshire,

Honda's at Swindon, to the Rover and Land-Rover plants of the Midlands, ultimate decision-making lies not in the UK but in the boardrooms of Detroit, Munich and Tokyo.

As global competition sharpens, whether these plants live, wither or die will depend almost entirely on performance.

The uncertainty is far from uniquely British: the lesson has not been lost on highly-paid German employees of Rover's owner – BMW – watching what would once automatically have been German jobs drifting overseas to BMW's new and much lower-cost plant at Spartanburg, South Carolina, or Mercedes-Benz in Alabama.

The consolation for the UK-based industry is that, with luck, the ghost may not return for quite some time to come.

Halewood apart, the current story of carmaking in the UK continues to be one of increasing investment, and output forecast to continue rising until, some time around the year 2000, it crosses the 2m threshold.

BMW, for example, may have been dissatisfied with Rover's overall sales performance and have felt

impelled to take rigorous action to improve quality in some Rover operations since taking over. But Rover is benefiting from an investment programme averaging £500m a year (double the level under British Aerospace's ownership) and last year, even though BMW does not expect Rover to start earning profits until the end of the decade.

The first fruits of the investment, the CB40 "small" Land-Rover, will appear later this year. An all-new Mini – with an engine supplied from a joint venture between BMW and Chrysler in Argentina – is just one part of a renewal programme which will leave Rover with a completely new model line-up.

Despite its dissatisfaction over Halewood's performance, Ford's UK investment is also averaging £500m a year. As part of that programme, the company has made clear in the past few weeks, the Southampton plant will be re-tooled for the next-generation Transit van, production of which will once again be shared with Genk in Belgium. Ford's main UK plant, at Dagenham, has just been designated the lead European site

for the successor to the current Fiesta small-car range.

General Motors is investing £650m in its UK operations over the next five years, including updating Ellesmere Port to produce the next Astra range and to further expand output of the larger Vectra at its main Luton plant in Bedfordshire. This is a modest sum compared with the \$6.3bn being invested by GM's German Opel subsidiary over the same period. But GM is also likely to proceed with plans to add production of a small car – the Corsa, or its successor – at Luton. Peugeot is also considering assembly of an extra model alongside the 306 at its Ryton plant near Coventry.

Much of the expansion in UK output, however, has come from the three UK transplants of Nissan, Toyota and Honda – and there are signs that this expansionary momentum will be sustained.

Within days of Ford announcing its Halewood cut-back, Nissan went public with plans to build a third model at its Sunderland facility, alongside the medium-sized Primera and Micra "supermini". It will replace the current Almera hatchback, require a further

investment of £215m at Sunderland – bringing the total to nearly £1.5bn – and create another 800 Nissan jobs plus 2,700 in the components industry. By the year 2000, Nissan hopes to be building 350,000 cars a year at Sunderland, compared with this year's 250,000.

Honda is in the process of expanding capacity at its Swindon plant from 100,000 to 150,000 by the end of next year, two years earlier than envisaged originally.

Toyota, Japan's biggest carmaker, is adding a second model, the Corolla, alongside the Carina E at its Burnaston plant in Derbyshire, lifting annual capacity to 200,000 units from the 117,000 produced last year.

If Toyota's ambitions for the European market are to be met, the expansion may still have some way to go. Toyota has set itself a target of increasing its European sales by 50 per cent to 600,000 by the year 2000, with 80 per cent – or more than 350,000 – produced in Europe. It has been looking at sites elsewhere in Europe, but the logic of a second round of expansion at Burnaston seems inescapable as it would give Toyota the economies of scale that rival Nissan is poised to achieve at Sunderland.

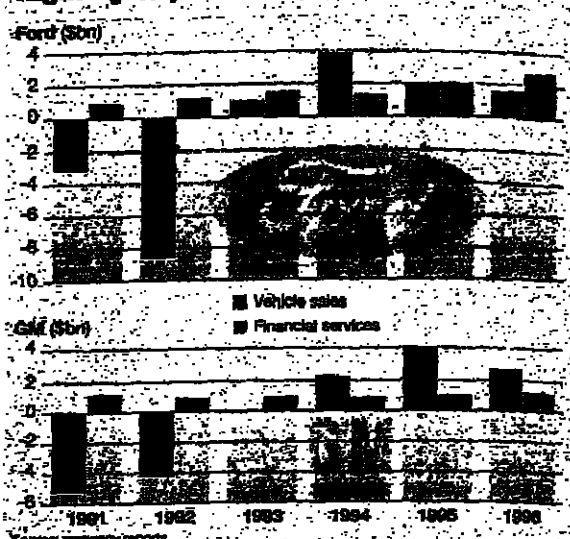
Despite the now-acknowledged flexibility of most of the UK motor industry workforce, despite its low labour costs and relatively low social overheads which have made the UK the most attractive country for inward investment in Europe, Toyota has nevertheless fired a warning shot that nothing should be taken for granted.

Mr Hiroshi Okuda, Toyota's president, in an off-the-cuff meeting with reporters in Tokyo at the end of January, said that Toyota's future investment decisions in Europe would be influenced by whether a country had signed up to monetary union, with a clear inference that Toyota would rather a country be in than out.

Mr Okuda, dismayed at the consequent political failure in the UK, quickly backtracked to say that EMU membership would be only one of several "basic business factors" which would be considered.

Financing

Highway to profits



Cashing in on money

Finance subsidiaries can help carmakers weather some storms, says Richard Waters

The way the US's biggest car and truck makers used to make money was simple: by building and selling better cars than the next company.

But in the late 1990s, it seems, there are often greater profits to be earned from financing the sale of vehicles than there are from building them in the first place. And in Detroit's drive to develop new international markets, those financial skills have been pushed to the forefront.

The importance of the financing business to General Motors and Ford Motor has been clear at least since the US's shallow recession of the early 1990s, when steady profits from financial services helped make up some of the losses from the highly cyclical business of making new vehicles.

It is only more recently, though, that the true potential of these financing businesses has become clear.

Take Ford, whose financial services business includes consumer finance as well as vehicle finance. In the four years since the company's automotive operations climbed out of their early-1990s slump, Ford has earned \$8.5bn in after-tax profits from making and selling vehicles; it has also made \$7.5bn of profits in the financial services business – and last year earned more in this area than from its traditional manufacturing operations.

Over the same period, General Motors has earned \$4.1bn from financial services, a sizeable addition to the 50 per cent of net income from its core operations.

These have been important sources of profit which have enabled the two to rebuild their financial strength. Now they are also playing a big part in the development of new vehicle sales in the growing markets of Asia, Latin America and eastern Europe.

General Motors' Acceptance Corp (GMAC) and Ford Motor Credit (FMC) have also set out to use expertise gained in the US to provide financing support for dealers who sell other manufacturers' vehicles internationally. Also, says Mr Smith, there is the prospect of rapid growth in countries where FMC (and Ford) have only recently become established.

As a result, the two companies predict that both assets and earnings will grow faster abroad than in the US for the foreseeable future.

business, it is hardly surprising that the automakers are trying to repeat their successes overseas.

"The relationship in new markets is a symbiotic one," says Mr Greg Smith, executive vice-president of FMC's international business. "In India, we entered the market together," he says. "We helped Ford establish dealer bases; they helped us by jump-starting our financing business."

Both GMAC and FMC point to added attractions in operating outside the US.

For a start, profit margins are higher. The less competitive nature of the vehicle finance business in many countries makes it more profitable than the mature US market, says Mr Clout. GMAC's international operations account for 15.5bn of its assets, or around 14 per cent of the total, but contribute nearly 20 per cent of the profits, he says.

FMC, meanwhile, generates around 20 to 25 per cent of its earnings overseas, roughly in line with its share of assets from those countries, reflecting higher operating margins but also higher overhead spending, says Mr Smith.

Another attraction is the better credit quality of business outside the US. "There is certainly plenty of room for growth away from home," Both companies already finance virtually all of their dealers' inventory outside their home markets. But GMAC says it helps finance only one-fifth of GM's vehicle sales to end-users outside the US, compared to around one-third at home.

FMC financed the purchase of a higher 33 per cent of Ford vehicles in the US last year, but provided the same service for 25 per cent of sales in the relatively developed western European market and far less elsewhere.

The chance of financing a higher share of new vehicle sales is one of three avenues of growth internationally, says Mr Smith. FMC, both it and GMAC have also set out to use expertise gained in the US to provide financing support for dealers who sell other manufacturers' vehicles internationally.

Also, says Mr Smith, there is the prospect of rapid growth in countries where FMC (and Ford) have only recently become established.

As a result, the two companies predict that both assets and earnings will grow faster abroad than in the US for the foreseeable future.



Ford is investing £25m at its Swansea components plant in Wales to expand production of wheels and hubs (above) for Escort-sized vehicles. The components will be exported to both Europe and North America. The expansion comes in the immediate aftermath of Ford's decision not to build the next-generation Escort at its Halewood plant on Merseyside.

Fresh markets are opening up

Carmakers from around the world are joining an investment boom, writes Haig Simonian

EAST EUROPE

Ask a German policeman to find your stolen car, and the chances are he will tell you to search in Warsaw or Prague rather than closer to home. But the soaring trade in stolen vehicles after the collapse of communism may be giving way to more legitimate commerce as greater affluence in central and eastern Europe creates a growing market for new cars.

New car registrations in Poland, the biggest and most populous state in the region, surged by 39 per cent to nearly 370,000 units last year, making the country Europe's eighth biggest car market. Sales are expected to reach an annual level of 400,000 units by 2000, according to Samar SC, a local consultancy.

Registrations in neighbouring economies have also been rising, although growth has sometimes been hiccuped because of deflationary policies to curb spiralling inflation.

Sales in the Czech Republic – the region's second biggest market – exceeded 153,000 units in 1996, 7.9 per cent up on the previous year. Although registrations in Hungary last year failed to reach their 1994 peak of 90,000 units, sales recovered from the low point of 68,800 in 1995 after the government's austerity programme and should reach 80,000 units this year.

Buoyant demand has sparked an investment boom, with German carmakers leading the way. Volkswagen, which has bought 70 per cent stake of Skoda in the Czech Republic – the biggest vehicles group in the region – has invested further to provide new assembly and paint facilities. It is also producing new and revised models, which should help to raise output to about 400,000 units a year by the end of the decade.

VW has also invested in production in Slovakia, where it assembles Golf hatchbacks. The Bratislava plant is now responsible for

all the group's four-wheel-drive operations, as well as making gearboxes. Meanwhile, VW's upmarket Audi subsidiary has invested about DM1bn to build engines at Győr in Hungary. The plant will, from later this year, also start assembling Audi's new line of coupes and convertibles.

Opel, the German subsidiary of General Motors, has also invested heavily in Hungary. It now assembles cars and engines, as well as making engine components, at a DM700m plant at Szeged, where Opel started assembling cars in 1994. The company is building a DM500m plant to make 70,000 cars a year.

For the moment however, the Polish market is dominated by Fiat, of Italy, and Daewoo, of South Korea. The former spent \$1bn to take control of FSM, one of the country's biggest vehicles groups, and is now spending \$300m to equip the company to build the new A178 world car and a successor to the Cinquecento minicar.

Daewoo, meanwhile, plans to spend about \$1.34m to develop its activities in Poland by 2002. Last year, it bought FS Lublin, a commercial vehicle maker now assembling South Korean

cars, and took control of FSO, once Poland's biggest carmaker.

Other carmakers have been more cautious with their cheque books. Suzuki, of Japan, has spent more than ¥200m on a Hungarian joint-venture to assemble vehicles; Ford has invested \$54m on a car and van assembly plant at Ploiești in Poland.

Most manufacturers see their new capacity as a bridgehead into local markets, as well as into the much bigger – but still untested – waters of the former Soviet Union to the east. A few have already taken their tentative first steps. Late last year, production of Chevrolet Blazer sports utility vehicles started at a joint-venture between GM and Elaz, a company in Tatarstan, with the US group taking a 25 per cent stake.

"The investment climate in Russia is improving. But we have to be a bit surer about the safety of our investment before putting in significant spending," says Mr Louis Hughes, head of GM's international operations.

Last month, GM went further after confirming it was in talks with AvtoVAZ, the

Russian carmaker behind the Lada brand, on a possible joint-venture. In the first instance, the two are discussing the creation of a new plant at Vyborg in Karelia, north-western Russia, to build 50,000 cars a year.

The area lies conveniently adjacent to Finland, the home of Valmet, the engineering group which is negotiating alongside GM on the project. At a later stage, GM might work together with AvtoVAZ on building cars at its Togliattigrad facility. GM is also talking to the Ukrainian authorities about a possible joint-venture with AvtoVAZ, the country's leading carmaker. Here it is in competition with Daewoo – the former partner and now rival with which it crossed swords in the battle to gain control of Poland's FSO.

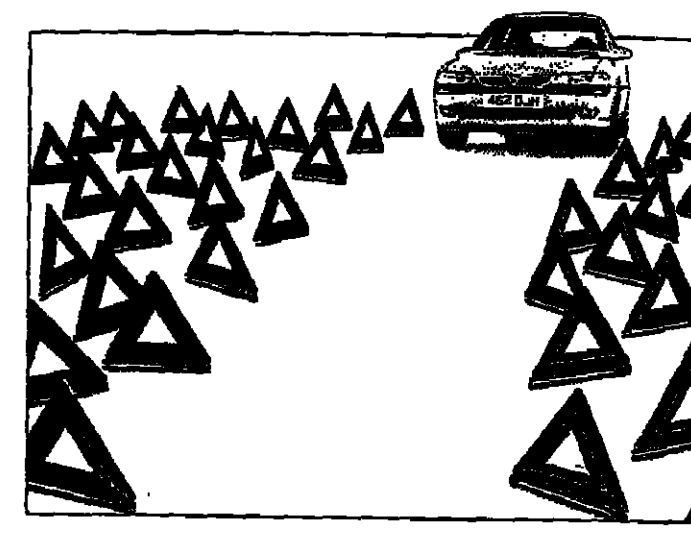
Daewoo has gained considerable experience in former Communist markets: in 1994 it spent \$156m to buy 51 per cent of the former Olcit factory in Romania. The company, renamed Rodae, has gone through a testing period, with output last year well below expectations. It now claims to be performing better.

Ford, meanwhile, has reached agreement with the government of Belarus and

Lada-OMC, the dealer group which sells Ford products in the country, to set up a joint venture car and van assembly operation near Minsk. The facility, which is a smaller version of Ford's kit assembly plant in Poland, should start producing vehicles by September. The company plans to build 6,000 vehicles in its first full year, with output concentrating on Escort cars and Transit vans.

Belarus is not virgin territory: Skoda has started assembling cars there with a local partner. The company has a similar project with another local partner at Smolensk in western Russia. Meanwhile, Kia, another South Korean manufacturer, is pressing ahead with its project to assemble vehicles at a former shipyard in the Russian enclave of Kaliningrad together with three local partners.

So far, all the alliances in the former Soviet Union are at either the planning stage or just starting production. In spite of the difficulties of doing business locally and the western groups' reluctance to commit much cash, they probably represent the seed corn for growth in vehicle production in the future.



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Technology

'Intelligent' systems provide \$15bn bag of opportunities

Roads in many parts of the world are becoming hopelessly traffic-choked. But much work is being carried out to ease the situation, says John Griffiths

Dr. Nick Evans is calmly emphatic about his view of the future: "We have to face the fact that the days of carefree motoring are now over."

He has a particular interest in the subject, as director of the global Intelligent Transport Systems programme at SRI International, still best-known under its old title of the Stanford Research Institute.

SRI currently is working on a four-phase research project into telematics, the collection of technologies embracing electronics, computing and communications which collectively will play the key enabling role for the "intelligent" transport infrastructure and "intelligent" cars which should be a fact of life early next century.

"Intelligent" infrastructure will comprise highways equipped with a variety of sensors and communications equipment which will, among other things, change traffic light sequences to improve traffic flow, charge tolls automatically, and relay routing guidance to "intelligent" cars. Such cars will be able to navigate via satellite systems and automatically maintain a safe distance from other vehicles.

The SRI work is being undertaken on behalf of 30 or so public institutions and industry groups worldwide, all well aware of the increasingly dramatic impact that intelligent transport systems (ITS) will have on everyone's lives.

SRI is not alone. In Brussels, Washington, Detroit and Tokyo, cross-industry groups, transport and environment quangos and government departments are variously and collectively groping their way towards a coherent vision of the ITS future: how the technologies, many already available, are best to be integrated; how common standards are to be achieved; how the undoubtedly daunting costs of implementation are to be funded.

Whole industries, from automotive to electronics, are seeking to establish the commercial prospects of a new era for cars, vans and trucks in which there will almost certainly be much new added-value in terms of in-vehicle equipment.

A great deal of the responsibility for ITS creation will lie outside of the immediate ambit of the motor industry. It requires primarily a commitment from government to direct and fund the creation of the infrastructure on which "intelligent" cars and commercial vehicles should be able to travel much more efficiently within the next few decades.

The incentive for governments to drive down the



telematics road seems clear enough: according to OECD estimates, road traffic congestion in the European Union alone costs more than £100bn a year – 2 per cent of EU gross domestic product – in wasted man-hours, fuel costs and other charges.

One answer could be to build yet more roads at costs now averaging around \$600,000 per lane/kilometre. Dr Evans points out. Environmental protesters apart, that is a prospect from which transport departments round the world, almost all strapped for cash, are recoiling. In theory, they should thus jump at the chance of using telematics to create advanced traffic management and controls systems on existing highways, at a cost of only around \$30,000 per lane/km.

The US department of transport estimates that converting a highway to become "intelligent" would increase its carrying capacity by up to one-third. Transport experts in Brussels largely concur with this estimate.

The problem is, most traffic experts agree with another US transport department estimate... that by the year 2005 all forms of road congestion will have doubled so that telematics still only represent mitigation of the

world's traffic problems, not their solution.

Wrestling with this unpalatable fact, and the consequent reluctance to commit public funding, is the principal factor behind the relatively slow growth of an intelligent highway structure globally to date. It is thus inevitable that the situation is frustrating for electronics, communications and automotive industries anxious to capitalise on all telematics technologies' capabilities.

Here is one illustration.

The first in-car satellite navigation systems are now appearing in western car markets (there are already 1m users in Japan). As of this year they are being offered as original equipment options on BMWs, Audis and the Ford Mondeo and are capable, using CD-Rom maps and satellite position, of taking a driver unerringly to within 15 yards of any key-in destination. What they cannot yet do, however, is adjust that route to escape congestion caused by accidents, heavy traffic flows or other impediments along the chosen route. To do so requires the availability of transmitted data on real-time traffic conditions collected from computer-controlled monitoring beacons which are an

essential part of the "intelligent" highway.

Only when this infrastructure is widely available can the fully-integrated route guidance system, which would transform the efficiency of billions of individual road journeys, become a reality.

Fortunately for industry, there is other in-vehicle technology of the telematics era which need not wait on government. Collectively, according to a range of industry forecasts, it should see the electronic content of cars and commercial vehicles rising to around 20 per cent of a vehicle's total value – almost double the current level – by 2005.

In broad terms this in-vehicle technology embraces: navigation and route guidance; driver information, such as traffic and travel news; CD-Rom, fax and Internet-based amenities such as hotel, restaurant and parking listings and reservation capabilities; and safety and control systems, such as automatic collision avoidance, "intelligent" cruise control, automatic motorway lane-keeping, driver alertness monitoring and night vision enhancement systems.

As the UK's Transport Research Laboratory and similar institutions point

out, the market penetration of such technology initially will be very much dependent on consumer acceptance, although safety-related improvements frequently – as with seat belts – later become the subject of legislation. Some of the first of this new generation of in-car technology becoming available is undoubtedly expensive, typically around £2,000 for a satellite guidance system, although this will fall quite quickly as economies of scale are achieved.

Most of the other technologies are still in their final development stages and will reach the market within the next decade.

According to market potential estimates arrived at by SRI in its research programme, even without a fully-developed intelligent highway structure the markets created will have been worth the R&D effort.

It has analysed the means, values and attitudes of some 2,000 individual drivers of vehicles from pick-up trucks to luxury cars in arriving at its forecasts of the likely take-up of some, at least, of the forthcoming in-car technologies.

Its projected unit sales for these technologies are set out in the accompanying chart, and indicate cumulative sales of nearly 43m units by the year 2011.

In value terms, this represents \$4.6bn in collision warning systems, \$2bn in other hazard warning technology, and \$3.4bn for in-car navigation systems. As the next decade draws to a close, however, it predicts that growth of highway telematics will lead to the long-awaited integration of navigation, "live" traffic information and other driver information systems into a complete IDIS (in-vehicle driver information system). The value of these systems, though not yet stated, is forecast to run into many billions of pounds.

'Clean' trials are ready to go ahead

Rosen Motors, the Californian company founded by the chairman of Compaq Computer and his communications technology-pioneering brother to develop "environmentally clean" vehicles, is to test a luxury sports car later this year. It will use the Rosen's turbine-flywheel technology, writes John Griffiths.

The decision to embark on the trials follows the successful testing of a converted General Motors Saturn saloon, fitted with the first prototype of the technology.

The E-class Mercedes to be used in the autumn trials will be fitted with the next generation of the technology, which combines a small gas turbine engine with an energy-storing

flywheel. Rosen Motors claims it will provide high performance – 0 to 60mph in around six seconds – with negligible exhaust emissions.

If tests go well, the company hopes to produce for sale a batch of about 1,000 converted luxury cars, possibly from next year.

The successful test has come as a relief to Mr Ben Rosen, chairman of both Compaq and Rosen Motors, and his brother Harold, the communications technology pioneer, generally recognised as the "father" of the geostationary communications satellite.

Last autumn, Rosen Motors twice invited the media to watch the Saturn saloon go through its paces, only to have a fuel pump fail on one occasion

and the flywheel bearings on another. "Basically," said Mr Ben Rosen, "we tried to run it prematurely." Rosen Motors, founded nearly four years ago, employs 60 people. It is complemented by Capstone Turbine Corporation, of which the Rosens are also founders and which manufactures gas-turbines.

The project is already costing Compaq's chairman nearly \$80m from his own pocket. Mr Rosen says he refuses to tap state and federal development aid funds, which would almost certainly be available, "because it is an inappropriate use of taxpayers' funds to provide corporate welfare for companies which have billions and should be able to fund programmes on their own".

Multimedia



Virtual reality: Ford used this technology for the launch of its Galaxy multi-purpose vehicle

Buying from the comfort of home

Time wasted spent waiting in a showroom may soon be a thing of the past, says John Griffiths

Multimedia technology is poised to transform the way in which cars are viewed, bought and sold.

It embraces many forms, among them "virtual reality" test drives, as pioneered by Ford, auctions by satellite, and the launch of interactive used car buying and selling via TV teletext.

Most significantly, it includes the Internet and World Wide Web on which manufacturers have lavished so much time and effort to create picture and video-festooned sites.

For ordinary potential car buyers there are still plenty of frustrating problems in using the Net and the Web. In the absence of high-speed ISDN lines in every PC user's home – providing adequate phone line capacity and faster downloading – users have likened accessing sites for pictures and video to watching paint dry.

But when all the snags are ironed out, suggest researchers from Andersen Consulting and the UK-based Motor Industry Research Group, there is no reason why "virtual dealerships" should not emerge, located not at a dealer's site but in the living room.

Ford used "virtual reality" technology to launch its Galaxy multi-purpose vehicle (MPV). Potential buyers could sit in a pod – several were made for touring large exhibitions – resembling the Galaxy's interior. They could look out on a "virtual road" and, just like an aircraft simulator, "drive" along it. At

the touch of a few keys the interior decor could be changed to reflect the catalogue options available.

To date it has remained an expensive tool of modest usefulness, with cost one big factor in it being not yet available in every dealership. But manufacturing costs are expected to fall as more carmakers show interest, and their spread through showrooms is regarded as almost inevitable.

The impact of other media technology is more immediate.

Car Shop, pioneered by the UK Camden Motor Group's executive director, Mr John Bacon, is continuing to develop. Launched in March last year, it is to be found both on Sky Television's version of teletext and on the Internet. Viewers can buy and sell cars using their telephone keypad and remote control, as well as garner much of the information they need to choose a car – and even book a test drive – without ever having to enter a showroom.

A potential buyer can search subscribing dealers' inventories for a car by price, model and specification and ask for suitable models to be shown in the order of nearest first. The system also provides pricing, insurance, car hire, finance, and warranty services.

Because, in using the system, buyers are setting out their raw preferences and interests and the evolution of their choices can be tracked, much information

of use to both motor trade and industry is being accumulated.

"If a customer goes to a local book store to buy a magazine on cars, we don't know which magazine he bought; we don't know which section of the magazine he's currently reading; we don't know whether the car in the magazine meets precisely his expectations – because we don't know what his expectations are either," according to Mr Bacon. With interactive technology, however, "the information being gained is of such value that it will shape both the production and inventory strategies (of the motor trade and industry) of the future."

Car Shop is currently a text-only operation, but next year it is scheduled to take a big forward step as part of a digital TV package jointly involving the UK's BBC, ITV and Sky networks. It will then be able to show pictures of individual cars photographed by digital camera.

North America has loose parallels with Car Shop. Companies such as AutoByTel and AutoVantage relay potential buyers' ideal car requests to nearby dealers subscribing to their service, with financial and insurance service providers Chase Manhattan and American International on hand for completed deals.

Even if there are currently lots of snags to the Internet, there is a general expectation in the motor trade and industry that it will permeate deeply into their activities.

Ford Motor has zeroed in on the Internet to set up its own "Intranet" for internal communications, allowing the instantaneous dissemination and exchange of information and data globally.

Components in the global market

Continued from Page 2

Escort model, this has presented the opportunity to become truly global suppliers as a result of the next Escort, due in 1998, being a "world" car to be built in several centres.

The FT report's authors suggest that a profile of the 21st century mega-supplier is emerging, and that by definition it will have global reach, deep research and development capability and a likely "critical mass" of \$3bn-plus annual turnover.

No less importantly, this revenue will be earned by clearly targeting core areas of activity – such as braking systems in the case of the Bosch/AlliedSignal acquisition – and not through diversification. Non-core businesses must continue to be shed, they suggest.

Just how far the leading suppliers can go in terms of supplying whole systems to manufacturers is illustrated in Chrysler's venture to build its Dodge Dakota, pick-up in Brazil, starting next year. The entire rolling chassis, with brakes and other operating systems already fitted, is to be supplied by Dana, the US automotive multinational.

Rationalisation and other

efficiency measures are spreading all along the supply chain as cost-cutting pressures mount. Significantly, there is a move in the industry to tackle the issue collaboratively. The US Automotive Industries Action Group, set up to embrace a broad swathe of smaller and medium-sized suppliers, is working on two projects to take \$2.5bn out of costs by improving inter-supplier communications and increasing system compatibility.

• *The Deal Survey: Price Waterhouse Corporate Finance, Cornwall Court, 19 Cornhill St, Birmingham B3 2DT, UK.* • *The Automotive Supply Chain: New Strategies for a New World Order.* E375. FT Management Reports, Maple House, 149 Tottenham Court Road, London W1P 9LL, UK; Tel: +44 171 596 2341

Downward drive on pay levels

Nearly one in four of the 35,000 employees at ITT Automotive, the US multinational's motor components business, will be earning less than \$10 an hour (at present-day rates) by the end of the decade,

according to estimates by the company.

In 1990, only 10 per cent of ITT's automotive employees were earning less than \$10 an hour. The figure has grown because ITT has had to cut its prices to suppliers by 3 to 4 per cent a year, requiring an increased sourcing from countries with low labour cost.

Leading suppliers in the US – such as Delphi, the General Motors' motor components arm which is by far the world's largest single components group – currently have combined wages and benefits costs of \$40 an hour or more. At the other end of the scale, employees in some developing countries earn less than \$2 an hour.

ITT sources from one Vietnamese operation where workers are paid \$64 a month for assembling wire harnesses. Overall, its average wages are currently around \$14 an hour. The figures emphasise the fact that it is no longer enough to be competitive within even a major developed region such as North America, analysts say. The competitiveness has to be global.

Pirelli to give up Amsterdam listing

Pirelli, the Italian tyres and cables group, is poised to end the Amsterdam stock exchange listing of Pirelli Tyre Holding, the Dutch holding company it created in the early 1990s to own and manage its global tyre business. An offer by the Italian parent, Pirelli SpA, to buy back the 5.4 per cent of shares and 3.3 per cent of warrants in PTH it does not already own should be completed during the spring. PTH will remain a sub-holding company still managing the overall tyre business.

The move comes as Pirelli moves closer to finalising a deal with Chinese government officials in Jilin province to create a joint venture to operate a tyre plant built at Chang Chun with Pirelli's technical aid four years ago. Pirelli hopes to complete the deal before the end of the year. It would also lead to a doubling of the plant's capacity to 1.5m tyres a year.

Goodyear's horizons

Mr Samir "Sam" Gibara is wasted no time in shaking

up operations at Goodyear Tyre and Rubber, the world's third biggest tyre-maker, since replacing Mr Stanley Gault as chairman at the start of last year.

Egyptian-born Mr Gibara is determined to create a more internationalist outlook at the Ohio-based group and increase the share of Goodyear's tyre earnings which come from outside the US.

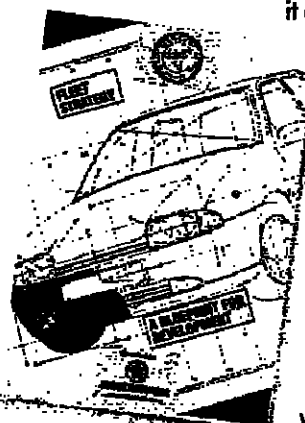
Tyre industry insiders are thus watching with fascination what next steps might be involved after the surprise announcement of a production-sharing agreement with Sumitomo Rubber Industries of Japan. In the late 1980s, when it had debts of more than \$2bn after fighting off corporate raider Sir James Goldsmith, Goodyear could only watch helplessly as Japanese rivals led by Bridgestone demoted the US company from the world number one spot it had come to view almost as its right.

Under the recently signed production-sharing deal, Goodyear will produce Dunlop-branded tyres for Sumitomo affiliates Dunlop and OHTSU in the US, and Sumitomo and its OHTSU subsidiary will produce tyres for Nippon Goodyear, the US group's Japanese subsidiary.

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Opel/Vauxhall scored first again in '96. For the fifth year in a row.

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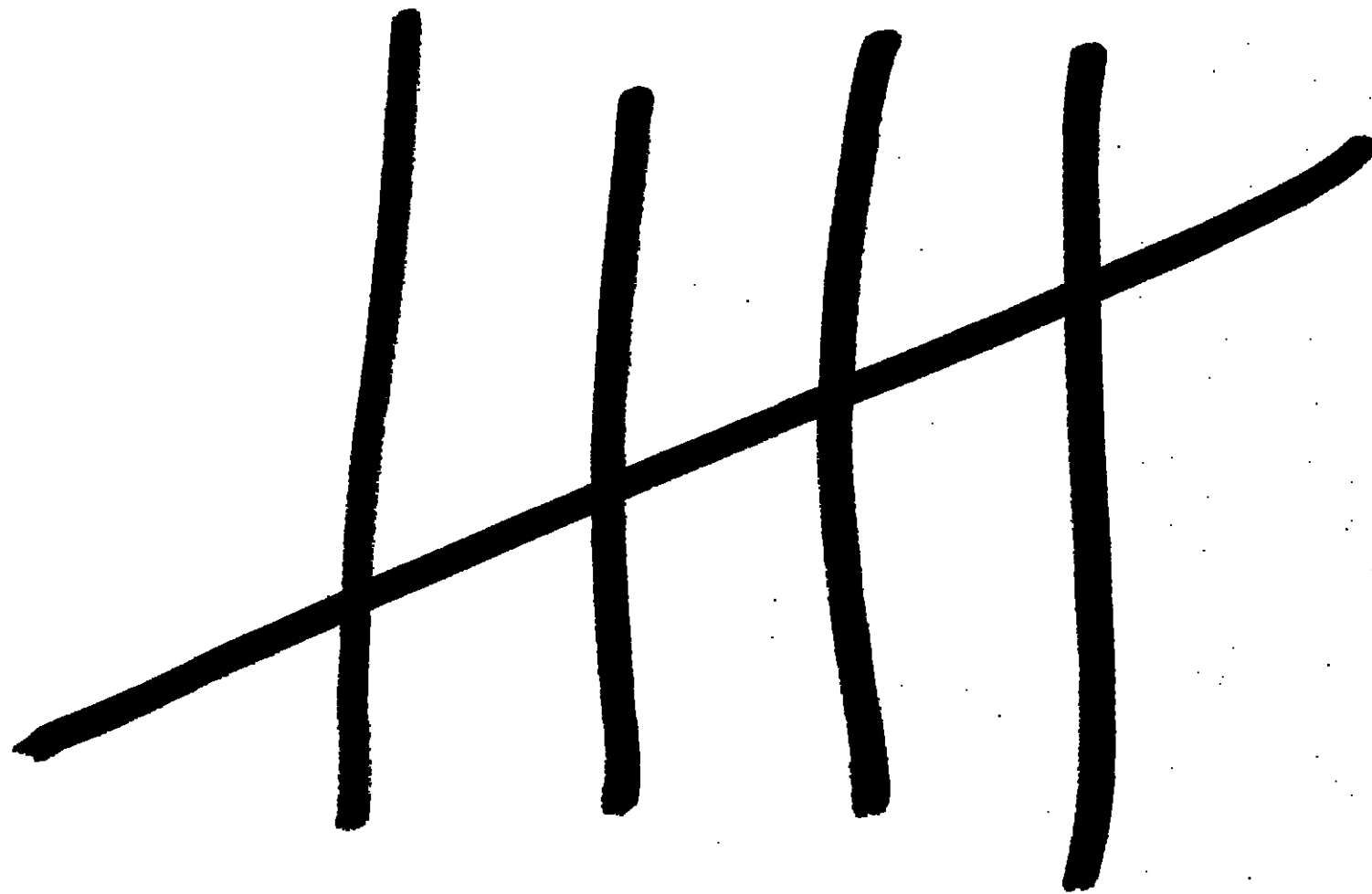
gain in Central and Eastern Europe. Our brand won best-ever market shares in France, Italy, Poland, the Czech and Slovak Republics and Turkey; scored first in Ireland and Finland and extended its long-run leadership in the Netherlands (28 years) and Switzerland (15 years). The sporty Corsa and new Vectra were top sellers in their categories.

All in all, an excellent year, with a promising outlook ahead. But we're not taking this or any other year for granted. Not with all those other brands eager to even the score.



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Yeltsin acts to reassert authority

By John Thornhill
in Moscow

President Boris Yeltsin will today reaffirm his commitment to further economic reform and attempt to reassert his political authority when he makes a long-awaited state of the nation address to parliament.

Russian media said Mr Yeltsin had appointed Mr Anatoly Chubais, his chief of staff, as first deputy prime minister with a brief to streamline the state apparatus and tackle mounting social problems.

Observers said the controversial appointment would signal Mr Yeltsin's determination to carry through Russia's painful reform drive, stalled by his prolonged illness. In his speech, Mr Yeltsin is expected to focus on the need to stamp out corruption and crime.

As mastermind of the mass privatisation drive and manager of Mr Yeltsin's re-election campaign, Mr Chubais is seen by international financial institutions as Russia's most effective administrator. He is reviled by the Communists as a cold-hearted capitalist ideologue. Mr Yeltsin's speech is regarded as a critical test of his ability to govern the country after long absence from the Kremlin.

A Russian radio station this week claimed he was too ill to make the speech.

and any further frailty would be exploited by his political opponents.

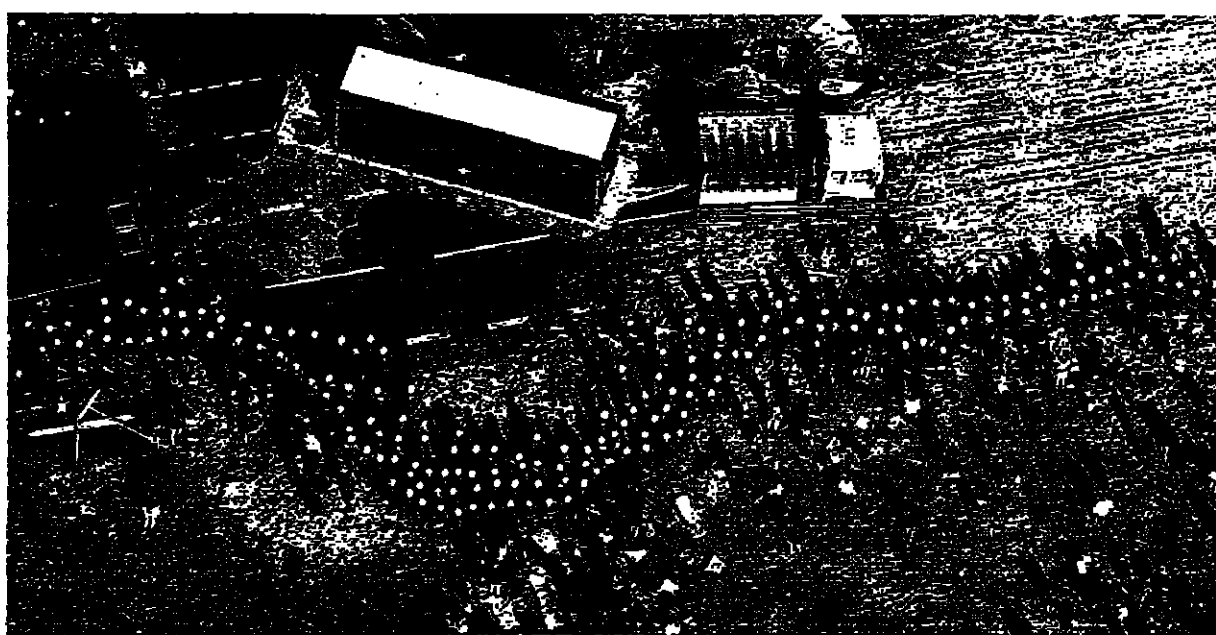
If Mr Chubais is to be first deputy prime minister, observers expect the two other ministers currently holding this rank to be demoted. Mr Victor Chernomyrdin, who commands respect across the political spectrum, is expected to remain as prime minister, although his powers may be reduced.

Mr Yeltsin appears to have drawn back from replacing Mr Chernomyrdin with Mr Chubais for fear of antagonising parliament, which has to approve the appointment of a prime minister.

Mr Vladimir Potanin, the young banker who is one of two first deputy prime ministers in charge of the economy, forecast there would also be "serious changes" to the government structure.

Local news agencies reported that Russia's 60 ministries, commissions and state committees would be cut by 15 per cent.

The presidential administration, which has effectively run the country during Mr Yeltsin's absence, is also to be restructured. One Kremlin source suggested it would be stripped of the political control functions it acquired under Mr Chubais and would evolve into a purely administrative apparatus modelled on the staff of the US White House.



Nuclear convoy beats protests

Noisy, obstructive and violent protests failed yesterday to prevent a convoy carrying nuclear waste through Germany from finally reaching a special storage station in Gorleben, Lower Saxony, after the country's biggest post-war police operation, writes Ralph Atkins in Bonn.

Mr Manfred Kanther, federal internal affairs minister, blamed "anarchists" for inflaming the dispute which began last week and yesterday saw police using water cannon. But the affair has highlighted Germany's heavy reliance on nuclear power - and the activism of its opponents. Mr Gerhard Schröder, Social Democrat premier of Lower Saxony, called for a revised energy policy that ensured "unnecessary transports do not have to be repeated".

More than 30,000 police were required to ensure waste from two power stations in south Germany and a French reprocessing plant reached Gorleben. Yesterday's journey was only 20km but the six trucks - one of which is pictured left protected by police - took more than three hours.

Chirac criticised over legal appointments

By David Buchanan in Paris

France's top magistrates body has accused President Jacques Chirac of breaking with past executive practice by overruling their advice in the appointment of a large number of judicial prosecutors.

The allegation, leaked yesterday to the *Liberation* newspaper, comes in the annual report by the Higher Magistrates Council (CSM)

due to be presented to Mr Chirac today.

It prompted a furious reaction from Mr Jacques Toubon, the justice minister, who protested at "the political exploitation" of the report.

The CSM has complained that its recommendations against certain appointments were ignored in 46 per cent of cases last year. Such widespread flouting of its advice "marks a break with

previous practice" by the executive, it said, and "feeds suspicions about the independence of magistrates".

The power to nominate prosecutors lies with the executive, which does not have to follow the advice of the CSM. Under the constitution, Mr Chirac also presides over the CSM, which has Mr Toubon as its vice president.

The justice minister yesterday dismissed the affair as "a storm in a teacup" and

rejected the council's allegation. He said that, since 1995, the CSM's advice had been ignored in only seven of 500 appointments, or 1.5 per cent of the total.

Mr Chirac moved in January to appoint a high-level commission, headed by the head of France's supreme court, to look into judicial independence. This has partly drawn the sting of criticism that the Gaullist president and government

have interfered with prosecutorial appointments, against a background of a series of continuing judicial investigations into the Gaullist party funding at the national level and in Paris.

Mr Chirac was mayor of Paris from 1978 to 1995, when he became president.

In creating the commission, Mr Chirac said he wanted it to examine the feasibility and desirability of making France's judiciary

totally independent of the executive, as well as better protection of the individual rights of defendants.

The commission is due to report its findings this summer.

The CSM recommends in its report that it should have a veto power on appointments of prosecutors, and that the justice minister should in future refrain from steering individual prosecution cases.

New EU rules on refugees proposed

By Emma Tucker in Brussels

People fleeing en masse from the world's trouble spots can expect to receive the same treatment in all 15 EU member states, if draft proposals drawn up by the European Commission become law.

The proposals aim to establish EU-wide minimum standards in such areas as housing and employment rights for "displaced persons". They will be presented to the Council of Ministers in May.

But the plans contain no measures for sharing the financial burden of hosting people seeking temporary protection.

"They were drawn up in response to the massive exodus of people that resulted from the Yugoslavia conflicts. According to Brussels, some 2m people fled Bosnia, no fewer than 800,000 of them asking for protection within the EU.

Many member states were affected and most applied some form of temporary protection to help the victims, but in the absence of any EU agreement each country developed its own system - some much more generous than others.

"People were treated in very different ways," said Mrs Anita Gradin, commissioner for home and justice affairs. "Next time we are faced with such a situation we have to make sure that a fair and dignified reception can be offered in all member states."

The initiative, which must be agreed unanimously by the member states, comes too late for refugees of the Bosnia crisis and probably too late for any exodus from Albania.

However, Mrs Gradin said yesterday: "We do not know when or where large numbers of people will again be driven from their homes and country, but I am sure it will happen. And we have to be prepared."

The proposals aim to establish minimum rights on access to the labour market, education, social welfare, housing and conditions for family reunification.

In such countries as Austria, Denmark, Germany, Greece and the Netherlands this would entail changes to the current laws on employment. In these countries access to the labour market is limited, if allowed at all.

The initiative, meant to complement the 1951 Geneva Convention on the Status of Refugees, will come into play only when the number of asylum-seekers is so great that individual case-by-case examination is not realistic.

Spanish extend job talks deadline

By David White in Madrid

Spanish unions and employers yesterday agreed to extend the deadline for their negotiations on reform of labour practices. This has revived government hopes for a voluntary pact, which would save it from enforcing changes through legislation and risking an open clash with unions.

Employers' leaders were understood to have put forward new proposals. The talks, launched in earnest in January with the two main labour organisations, the General Workers' Union (UGT) and Workers' Commissions, had appeared doomed to failure.

They are aimed at introducing more flexibility into the labour market to encourage job creation, especially for young Spaniards, and to remove obstacles to investment. This is against the background of an unemployment rate of almost 22 per cent - and more than 41 per cent in the 16-to-24 age bracket.

Rigid labour laws have led to the increasing use by companies of temporary work contracts. According to a recent government study, only 4 per cent of new contracts signed last year were for an indefinite period.

The centre-right government, concerned that uncertainty about future labour rules is holding up investment decisions, has been anxious to avoid further delay and has threatened to impose a reform. Mr Antonio Gutiérrez, the Workers' Commissions leader, warned this week that such a move would provoke a general strike.

Many employers worry that a compromise will still not bring Spain's redundancy costs into line with European competitors. But the government is expected to back any agreement that changes the status quo.

Talks yesterday focused on proposals for clearer contractual conditions over grounds for redundancy. This would enable companies to pay the standard basic compensation rate, which now exists more in theory than in practice.

Unions said the CEOE employers' federation had backed away from a proposal under which companies could apply a special rate for redundancies made on "objective" grounds, even though they failed to justify them in the courts. The two sides also moved closer on new forms of contract aimed at tackling youth unemployment.

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The EasyScroll mouse from KYE is seen with Plustek's PageReader, another Gold Award Winner with one of the smallest footprints in desk scanners.

NEWS: INTERNATIONAL

S Africa
may use
mines
as jailsBy Roger Matthews
in Johannesburg

Crime in South Africa has reached such a serious pitch that government officials are investigating the possibility of incarcerating the worst offenders in disused mine shafts.

Mr Khulekani Sitolé, commissioner for correctional services, said the mine shafts could be used for "people like murderers, rapists and armed robbers who repeatedly transgress. They are animals, and must never see daylight again."

His proposal was attacked as "barbaric" by human rights campaigners, while a mining engineer described it as "absurd".

Mr Sitolé said his proposal was also a reaction to the high level of prison escapes and serious problems of overcrowding. Escapes, he said, would be more difficult from deep underground.

The ministry of correctional services is to set up a committee to investigate the mine option, which would also involve conversion of surface buildings, but Mr Sitolé said he was expecting a strong reaction from human rights organisations.

The response was quick to come. Mr Golden Miles Budhu, president of the prisoners' organisation for human rights, said he was angry and disturbed. "Mr Sitolé's comments are just unbelievable. I am gasping for air," he said.

"This is a barbaric proposal from a commissioner who is supposed to be a progressive, broad-minded person. To insist that people are locked away, never to see the sun again, goes back to medieval times, and is based on ignorance," Mr Sitolé must be off his head," said Mr Budhu.

Mr Sitolé said while human rights would be considered, it was necessary to protect the public and separate hardened criminals from petty offenders.

Microchip inaction makes a date with disaster

The millennium bomb could affect almost every electronic device. Alan Cane assesses the scale of the problem

Until a few months ago, few people understood that the so-called "millennium bomb" affects not only old computer systems but also the most modern.

Now embedded processors have become a focus of concern as computer specialists become aware that these relatively simple silicon chips can also suffer the millennium malaise. Built into electronic machinery used to control anything from super-tankers to passenger cars and domestic videorecorders, the consequences of their failure could be serious.

The millennium bomb is a result of the cost of computer memory in earlier years. In 1984, 16m bytes of memory cost \$484; today, the same amount costs \$80.

As a consequence, programmers took short cuts wherever possible to save memory. Years were stored as two digits rather than four, the computer system

inferring that dates were in the 20th rather than any other century.

After midnight on December 31, 1999, however, computers won't know in which century they are operating.

Mr Gary Easterbrook, operations director of Millennium (UK), a company established solely to tackle this issue, gives an example of the ensuing problems. Medical infusion machinery responsible for delivering fluids to patients by drip feed has to be calibrated regularly. Such machines are fitted with embedded processors which calculate elapsed time since the last calibration. As a fail-safe, they turn off any infusion pump which has not been calibrated for, say, six months.

An infuser suffering from the millennium problem would assume, after December 31, 1999, that the machine had not been calibrated for 100 years and turn itself off instantly.

Of course, Mr Easterbrook points out, it is simple - but hugely expensive - to bring in a technician to fix the machine. Until, that is, the scale of the problem is considered. Five infusers per ward, say, with 20 wards per hospital and 10,000 hospitals in the UK alone. "There are probably not enough technicians in the UK to fix the problem quickly," he says.

The millennium problem is international in scale but it is attracting most attention in the US and the UK.

In mainland Europe, where advanced information technology systems are as prevalent, only a handful of companies are taking the threat seriously. The European Commission is refusing to mount an awareness campaign, apparently because it perceives the dangers as exaggerated. However, developing countries with little in the way of advanced information systems should, in theory, suffer least.

Embedded processors are ubiquitous and essentially of three kinds. There are stand-alone devices used to control conveyor belts, pumps, turbines and the like. Their mode of operation is set on manufacture and they are rarely programmable.

Then there are stand-alone devices which can be programmed electrically. These include devices controlling military radar, satellite systems and encryption devices for sending secure communications. The problem could be particularly acute in the latest fly-by-wire aircraft, where control of the aeroplane is almost entirely managed by embedded processors.

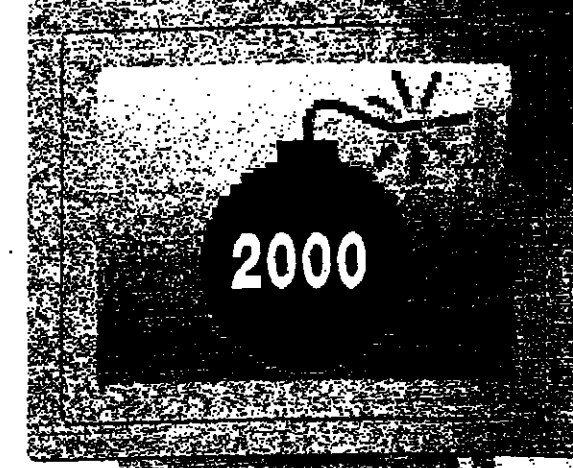
Last, there are systems where sensing devices are connected to a computer system set to analyse the data they provide. This could include water or gas metering systems.

Mr Robin Guernier, head of

Taskforce 2000, set up by the UK government to tackle the problem, said yesterday: "Most current computing systems and huge numbers of microprocessor chips are unable to cope with the transition from 1999 to 2000. If this is not fixed in time, the developed world will suffer economic and social difficulties - probably severe."

Computer specialists have little experience of solving such a widespread problem. Mr Easterbrook says companies have to assess the likely impact of the problem and devise a timetable to replace or reprogramme the blighted processors.

But most engineers are learning by trial and error. The processors have to be minimum compliance and physically replaced if necessary. Each chip costs only a few dollars but, multiplied by the millions of processors embedded in systems, the cost will be huge - all appar-



Waiting for the bang: computers' inability to cope with the year 2000 has been largely ignored outside the US and UK

ently to be borne by end-users. Yet manufacturers are still shipping processors that cannot cope. As Mr Guernier

said yesterday: "I don't think anybody has yet got their mind around the embedded processor question."

Palestinians reassess
Israeli peace pledgesBy Judy Dempsey
in Jerusalem and
Mark Huband in Cairo

The Palestinian leadership will tomorrow reassess Israel's commitment to the peace process following the decision by Mr Benjamin Netanyahu, the Israeli prime minister, to build a Jewish settlement at Har Homa in east Jerusalem.

Speaking after talks yesterday in Cairo with Mr Hosni Mubarak, the Egyptian president, Mr Netanyahu said: "The construction [of Har Homa] is the most natural thing we can do." He said the policy was intended to provide residents of Jerusalem with adequate housing and applied to both Arabs and Jews.

But Mr Mubarak was unambiguous in portraying the Israeli action as a danger to the peace process.

"I can't tell you that I am convinced," he said. "This problem could lead to complications in the future when [Israel and the Palestinians] start discussions on the final status of Jerusalem." Those negotiations are due to start this month.

The completion of the new settlement will give Israelis an unbroken series of settlements in eastern Jerusalem, detaching areas of the city Palestinians consider their capital from the areas under Palestinian control. The existence of the settlements will complicate Palestinian claims to east Jerusalem, which Mr Netanyahu says will not become the capital of a Palestinian state.

Mr Netanyahu, who has brushed aside growing international criticism over Har Homa, is to convene a cabinet meeting today to decide the extent of the first of the

three Israeli troop withdrawals from the rural areas of the West Bank.

However, Israel said the Palestinian Authority must first close four of its offices in east Jerusalem before the redeployment takes place. Israel claims the offices contravene the 1995 Oslo peace accords. "It is impossible for the peace process to continue, for the redeployment and other obligations which Israel has, to continue, without the closing of these offices," said Mr David Bar-Ilan, media adviser to Mr Netanyahu.

Senior Palestinian officials said the Har Homa housing project, the dispute over the status of the four offices and Israel's unwillingness to implement at least 23 outstanding articles of the 1995 Oslo peace accord were jeopardising the peace process.

Kazakhstan sets up 'one-stop shop' for foreign investors

By Charles Clover in Almaty

Sweeping decrees signed this week by the president of Kazakhstan may send half of the country's bureaucrats looking for new work, while foreign investors scurry to find a new name in their Who's Who: Akhmetzhan Yassimov.

On Saturday, President Nursultan Nazarbayev signed a new law on foreign investment. On Tuesday, he issued a decree eliminating a third of Kazakhstan's ministries and government agencies.

Combined, these reforms should streamline the Kazakh bureaucracy and create a new power base within the government, which may represent a fatal blow to the influence of the prime minister, Mr Akirzhan Kazhegeldin, who was out of the country at the time

of the decisions. Many observers see the formerly little known first vice premier, Mr Akhmetzhan Yassimov, as the eventual prime minister of Kazakhstan.

Mr Yassimov heads the State Committee on Investments which, according to Saturday's decree, became the "sole government body with the right to carry out government policies to support direct investment". Mr Nazarbayev put it more colloquially, in English, calling it on Monday a "one-stop shop" for foreign investors, meaning that the committee would be the only entity foreign investors must deal with to invest in Kazakhstan.

Tuesday's decree, meanwhile, strengthened Mr Yassimov's position still further. Among the ministries and agencies dissolved was the

State Property Committee, which formerly controlled all state-owned shares of Kazakh enterprises. Most of these shares are to be transferred to Mr Yassimov's committee.

Tuesday's decisions also created a more independent oil industry. Mr Yassimov's committee did not get state-owned oil and gas industry shares from the State Property Committee. These were transferred to a new national oil company called Kazakh Oil, to be created out of the former oil and gas ministry and headed by Mr Nurlan Balgimbayev, a former oil minister.

By eliminating the oil and gas ministry's official status, the industry is no longer subordinate to the prime minister, and by taking over state ownership of oil and gas enterprises the new company also avoids the influ-

ence of any separate shareholder, such as the former State Property Committee.

The prime minister and Mr Sarybai Kalmyrzaev, State Property Committee chairman, have been the main architects of Kazakhstan's privatisation policy over the past few years, but both have come under fire recently for selling enterprises too quickly and too cheaply. Neither could be reached for comment on the changes.

Despite the change in faces, though, western investors with experience in Kazakhstan do not see a wholesale ideological shift taking place.

"I don't think this represents a change in their overall privatisation strategy," said one western oilman. "I think it might only change what gets privatised."

NEWS: WORLD TRADE

Chrysler struggles to crack Japanese car market while US consumers snap up Japan's models

Neon offer
highlights
US troublesBy Michio Nakamoto and
Jonathan Arnell in Tokyo

A year and a half after a treaty on trade in cars and car parts was supposed to improve the chances of American carmakers in Japan, US carmakers still face formidable obstacles. But on the other side of the Pacific, Japanese carmakers are enjoying a boom.

In a move that highlights the problems of US carmakers in Japan, Chrysler yesterday unveiled a sales campaign aimed at lifting sluggish sales of its Neon model.

Chrysler will offer 500 Neon cars to Japanese consumers to use for one year at the nominal price of ¥14,200 (\$117) a month for the cheaper model. Users who are not satisfied can return the car after a year at no additional cost.

The unusual marketing move is an attempt by Chrysler to boost the Neon's sales in Japan - only 1,100 in the nine months since its launch last May. The poor performance comes in spite of a highly competitive price tag in comparison with Japanese cars in the US. Chrysler has priced the two-litre Neon at between ¥1.49m and ¥1.8m (\$12,200 and \$14,700) compared with about ¥1.8m for a 1,600cc Japanese car.

Like many US carmakers, Chrysler suffers from a combination of low awareness among Japanese consumers and a small number of dealers handling its cars.

"It's no secret to anyone that our efforts to sell Neon in Japan have been a challenge," said a Chrysler representative. "Part of that challenge is that a lot of Japanese consumers don't know Neon. This programme is designed simply to build awareness for Neon, and make people take notice," he said.

Chrysler increased sales in Japan last year from about 15,000 to 16,170 but largely on stronger sales of the Jeep, a popular model which is also sold for the US company by Honda. Jeep sales have been helped by a strong shift toward recreational vehicles in Japan.

The Neon, however, competes directly with some of the largest selling cars made by Japanese companies such as Toyota's Corolla, its most popular model, which sells between 10,000 and 20,000 units a month.

Although all three US carmakers increased their sales in Japan on average last year - and although Chrysler's sales rose strongly on the back of Jeep sales - sales in the first two months of this year have been sluggish for both Ford and GM.

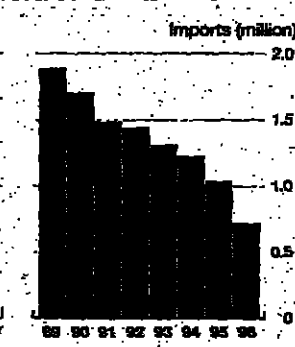
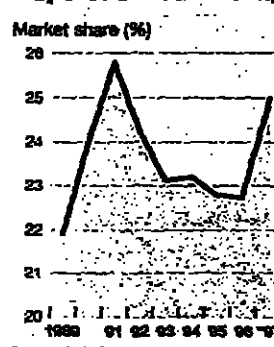
Meanwhile, sales of Japanese vehicles in the US soared in February, with many models setting records for the month as a result of relaunches. Manufacturers also took advantage of the dollar's strength to offer cash incentives while maintaining the level of their yen revenues.

A report released yesterday by Mr Sidney Weintraub, of the Washington-based Centre for Strategic Studies, said that much of Nafta's unpopularity was due to the way the Clinton administration - and the Bush administration before



Chrysler's Jeep is climbing new sales peaks in Japan but the Neon (below) has flopped despite a competitive price

Japanese car companies in the US



including those assembled locally by US subsidiaries - increased their market share to 23 per cent, up from 20.7 per cent a year earlier.

Mitsubishi registered the most impressive aggregate improvement, with a 41 per cent rise in sales. The company attributed this to the 40 per cent year-on-year growth in sales of the locally produced Gallant saloon car and

strong demand for the Montero sports utility vehicle.

Other manufacturers saw strong demand for restyled models such as Honda's Civic four-door and Toyota's Camry. But the huge popularity of sports utility vehicles was a common factor. Honda's 9 per cent overall sales increase was helped by the sale of 3,000 CR-Vs in their first month, while sales

of Nissan's remodelled Pathfinder surged 143 per cent to 6,289 compared with February 1996.

Analysts say the Japanese manufacturers are reaping the combined benefits of "hot models" often for niche markets, with the pricing advantages afforded by the yen's depreciation. Survey: FT Auto, Separate Section

Rifkind puts
stress on role
of investmentBy Roula Khalaf
and Edward Mortimer

Mr Malcolm Rifkind, the UK foreign secretary, yesterday described as "very worrying" the fact that the Middle East and North Africa received only 4 per cent of global private capital flows compared with Asia's 60 per cent share and Latin America's 20 per cent.

"It is a disturbingly small percentage," he said in an interview with the Financial Times, "especially given the region's geographical proximity to Europe."

Mr Rifkind today will open a two-day conference in London on the region's investment opportunities, intended as Britain's contribution to the partnership with countries on the southern and eastern rim of the Mediterranean, which the EU launched at Barcelona in 1995.

Europe, Mr Rifkind said, had an essential role to play in boosting investment in the region by improving access to the EU market for regional products, especially agricultural ones. But the countries of the region themselves also had much to do. "No one is obliged to invest in these countries," he said. "They have to create the conditions to attract investment."

There are at present many economic barriers to investment in the region, such as stifling bureaucracy and inadequate justice systems. But Mr Rifkind also emphasised the importance of political stability. Europe, he added, has "a strong dose of self-interest" in stability in the Middle East and North Africa, "because they are our neighbours."

The region is perhaps the area in the world where least progress has been made in building democratic institutions since the end of the cold war - a fact which deters investors by raising the political risk.

stability is through democratic institutions, with governments responsible to the electorate," Mr Rifkind said.

"We are not happy with any government that rejects the genuine democratic choice of the electorate," he added, in response to a suggestion that Europe had held back from pushing democracy in the region for fear of seeing Islamist governments take power. He admitted, however, that "there is a great international debate on what is the best way to deal with fundamentalist and other pressures," he pointed out that in Turkey the Islamists had been brought "into the system" (being allowed to form a government coalition), whereas in Algeria, where an Islamist election victory in 1994 was cancelled by the army, they had not. Algeria, he added, had "huge problems which it hasn't begun to overcome yet".

Legislative elections on June 5, from which the Islamist party which won the first ballot in 1991 is excluded, would have to be judged not only on "whether they are totally democratic" but also on whether they were "a step in the right direction".

Mr Rifkind distanced himself from this week's statements by west European Christian Democratic leaders, who suggested Turkey was not European because it did not share the EU's "Christian values". The European Commission, he pointed out, had only ruled that Turkey's EU membership application was "premature", and it might well do the same for some central or east European countries later this year.

The Barcelona process, covering 12 emerging markets in the Mediterranean, is aimed at promoting political, cultural and economic dialogue and creating a free trade zone with the EU by 2010.

Anti-Nafta forces in US Congress take aim

By Nancy Dunne
in Washington

Republican and Democratic congressmen yesterday fired a warning shot over an evaluation of the North American Free Trade Agreement (Nafta) being conducted by the administration.

Congressmen are pressing President Bill Clinton to renegotiate or withdraw from Nafta unless there are

improvements in the US trade balance. They are also seeking tougher environmental standards and a curb on the flow of illegal drugs into the US.

"For the majority of Americans, Nafta is just one giant broken promise," said Congresswoman Marcy Kaptur, an Ohio Democrat. "Nafta's boosters promised hundreds of thousands of new jobs. Instead, more than

700,000 of our citizens have been thrown out of work. In Mexico, the plight of millions of citizens has worsened."

A report released yesterday by Mr Sidney Weintraub, of the Washington-based Centre for Strategic Studies, said that much of Nafta's unpopularity was due to the way the Clinton administration - and the Bush administration before

it - sold Nafta to Congress.

"During both administrations, export expansion was equated with job creation," he said. No relationship exists between "increased export value and job creation, and certainly not between increased imports and job losses," the report argues. The figure used by both administrations to sell Nafta - that 20,000 jobs are gained for each \$1bn of

exports - "comes from primitive arithmetic and is wrong," it contends.

Many economists believe the significance of Nafta was that it established a legal and institutional framework between the US and Mexico. Mr Weintraub said that Nafta was "performing as expected." Bilateral trade was up and industrial specialisation which improves the competitiveness of compa-

nies was taking place.

The shifts in employment which Mr Weintraub sees as natural are viewed with alarm by many in Congress. Mr Charles McMillion, an economist who works closely with anti-Nafta groups, talks about the pact's huge impact on the motor vehicle and electronic sector and says that Mexico now exports more cars to the US than the US does to the world.